Budget
2011-2012

MARCH 2011

BUDGET PLAN

LOOKING TO THE FUTURE!

Québec

A PLAN FOR
QUÉBEC

BUDGET
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Finances
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2011-2012 Budget
Budget Plan

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Budget Plan

SECTION A
The Government's Economic and Fiscal Policy Directions

SECTION B
The Québec Economy:
Recent Developments and Outlook for 2011 and 2012

SECTION C
The Government's Financial Framework

SECTION D
Debt, Financing and Debt Management

SECTION E
Budget Measures:
Creating Wealth for the Future of All Quebecers

SECTION F
Financial Impact of the Measures of the 2011-2012 Budget

SECTION G
Report on the Application of the *Balanced Budget Act*

SECTION H
Report on the Application of the *Act to reduce the debt and establish the Generations Fund*

SECTION I
Additional Information – Historical Data

SECTION J
Additional Information on the Fiscal Measures

Section A

The Government's Economic and Fiscal Policy Directions

HIGHLIGHTS A.3

INTRODUCTION A.5

1. THE ECONOMIC AND BUDGETARY SITUATION A.7
   - 1.1 Québec economy continues to grow A.7
   - 1.2 Deficits remain unchanged for five years A.8
2. STAYING THE COURSE TOWARDS A BALANCED BUDGET AND DEBT REDUCTION A.13
   - 2.1 A balanced budget in 2013-2014 .... A.14
   - 2.2 Decreasing budget deficit objectives for 2011-2012 and 2012-2013 .... A.16
   - 2.3 Change in government spending A.17
     - 2.3.1 Efforts on the part of all government departments A.17
     - 2.3.2 Change in program spending since the 2010-2011 Budget A.18
     - 2.3.3 The government's consolidated expenditure A.20
   - 2.4 Debt reduction A.24
   - 2.5 Taking immediate action is crucial A.28
3. ACTION WITH A DEVELOPMENTAL EFFECT ON QUÉBEC'S FUTURE A.31
   - 3.1 New economic initiatives A.31
   - 3.2 Québec university funding plan A.32
   - 3.3 For a more efficient health-care system A.33
4. THE PLAN TO RESTORE FISCAL BALANCE A.37
   - 4.1 Continuation of the government effort A.40

5. COUNTER TAX EVASION AND UNREPORTED WORK A.49

5.1 Implementation of the Agence du revenu du Québec with a cost-benefit approach A.51

5.2 Intensification of measures to combat unreported work in the construction sector A.56

5.3 Targeted actions against organized networks of unreported work A.65

5.4 Concerted efforts to deter the illegal supply of childcare services A.66

5.5 Broadening of efforts to combat tobacco smuggling to neighbourhood networks A.67

5.6 Additional resources for the Autorité des marchés financiers A.71

5.7 Results of projects funded by the provision of the Ministère des Finances A.74

APPENDIX 1: FIVE-YEAR ENVELOPES OF INFRASTRUCTURE INVESTMENTS A.77

APPENDIX 2: FINANCIAL FRAMEWORK EXCLUDING THE REVENUE MEASURES STIPULATED IN THE PLAN TO RETURN TO FISCAL BALANCE A.79

HIGHLIGHTS

Supported by government recovery plans, the global economy grew strongly in 2010. The Québec government's $14.2-billion action plan enabled the economy to emerge from the recession faster than its main partners and post 3.0% growth in its real gross domestic product (GDP).

— The Québec economy will continue growing in the coming year, with real GDP rising by 2.0%.

☐ Deficits remain unchanged for five years

As regards public finances, the government is announcing a better performance than forecast for 2009-2010 and 2010-2011, with the deficits being revised downwards.

Furthermore, in accordance with the *Balanced Budget Act* (R.S.Q., c. E-12.0001), this budget sets the definitive decreasing deficit objectives for the next two years. The deficit will have been gradually reduced from $4.2 billion in 2010-2011 to:

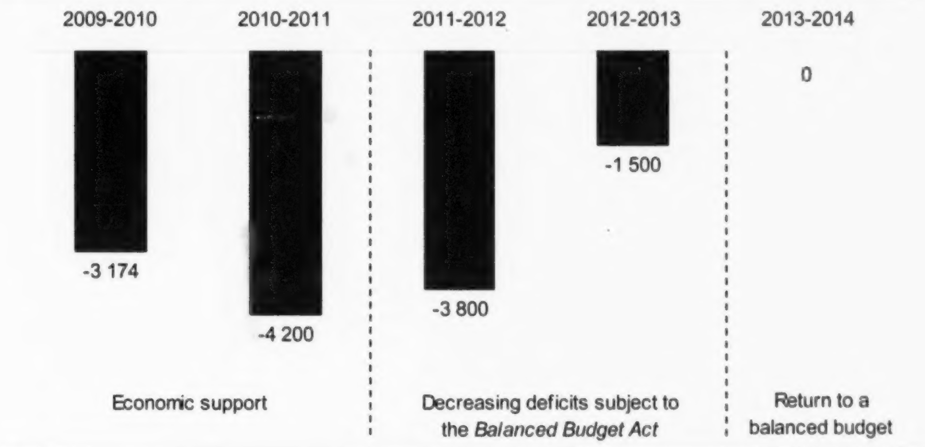
— $3.8 billion in 2011-2012;

— $1.5 billion in 2012-2013.

The deficit will be eliminated in 2013-2014 through the measures contained in the plan to restore fiscal balance, in particular with regard to spending control. On the whole, the aggregate deficit for the period from 2009-2010 to 2013-2014 is equivalent to that forecast in March 2010.

CHART A.1

Budgetary balance in accordance with the *Balanced Budget Act*
(millions of dollars)



❑ The government effort will be achieved

The government is staying the course towards a balanced budget. In the 2010-2011 Budget, it identified over 90% of the measures needed to restore fiscal balance and undertook to assume 62% of the effort.

All of the spending measures needed to deliver on that commitment were announced during the last year. In addition, the government effort of $1.4 billion planned for 2010-2011 will be achieved.

- Québec remains one of the provinces with the best spending control.

❑ Developmental action for Québec's future

With the plan to restore fiscal balance well under way, the government is embracing Québec's development with a long-term vision.

To that end, this budget includes developmental action to ensure economic growth and respond to the demographic challenge, in particular through:

- implementation of the Northern Plan and resource development;
- incentive measures to keep experienced workers in the labour force for longer;
- strengthening of retirement plans;
- initiatives to promote entrepreneurship and exports.

Furthermore, the government is entering a new phase in the long-term funding of public services. For that purpose, this budget includes:

- a six-year funding plan to enable Québec universities to achieve excellence by providing them with additional revenue of $850 million in 2016-2017, a budget increase of nearly 25%;
- an update of the financial framework to ensure 5% annual growth in health spending over the next five years.

❑ New initiatives for reducing the debt

Lastly, the government is reiterating its commitment to trim the debt for future generations. Accordingly, this budget includes additional action to facilitate achievement of the government's debt reduction objectives up until 2025-2026:

- Total funding for infrastructure investment will be gradually decreased over the coming years, while maintaining the quality of infrastructures as required by the *Act to promote the maintenance and renewal of public infrastructures* (R.S.Q., c. M-1.2).
- Starting in 2014-2015, 25% of mining, oil and gas royalties in excess of $200 million will be paid into the Generations Fund.

INTRODUCTION

This section of the Budget Plan provides an overview of the government's economic and fiscal policy directions.[1]

- Section 1 discusses Québec's economic and budgetary situation which, overall, is consistent with the situation presented a year ago.
- Section 2 sets out the government's policy directions for public finances, in particular with regard to restoring fiscal balance by 2013-2014, the decreasing deficit objectives, and spending and debt control.
- Section 3 touches on the new action to support Québec's economic and social development, including a six-year plan to improve university funding. It also reports on the updating of the five-year financial framework for health and social services spending.
- Section 4 touches on the progress made in the plan to restore fiscal balance. More specifically, it states that the government will achieve the $1.4-billion effort promised for 2010-2011.
- Section 5 describes new initiatives for reducing tax evasion and unreported work, including stricter requirements for businesses that obtain public contracts. It also reports, in detail, on the measures already taken.

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[1] Throughout this section, budgetary data for 2009-2010 are real, those for 2010-2011 are preliminary, those for 2011-2012 and 2012-2013 are forecasts, and those for subsequent years are projections.

1. THE ECONOMIC AND BUDGETARY SITUATION

Overall, the government's economic and budgetary situation has not changed since last year's budget. The economic growth forecasts for Québec for the period from 2010 to 2012 are almost the same, and the deficits for the years 2009-2010 to 2013-2014 total $12.7 billion, virtually the same amount as projected a year ago.

1.1 Québec economy continues to grow

Québec's economy continues to expand following the recovery that began in the second half of 2009. Despite the severity of the 2009 global recession, Québec's economic activity contracted less than in other advanced economies. It recovered quickly and grew at a steady pace, enabling a 3.0% rebound in real GDP in 2010.

Québec also outperformed its trading partners in the area of employment. The employment level is currently significantly higher than prior to the recession, and the 8.0% unemployment rate in 2010 compares favourably with the other advanced economies.

After rebounding more strongly than anticipated in 2010, Québec's real GDP is expected to grow at a rate closer to the historical trend, with increases of 2.0% in 2011 and 2.2% in 2012.

— The anticipated average economic growth rate for the years 2010 to 2012 is equivalent to the rate forecast in the 2010-2011 Budget.

The good labour market performance and the increase in business and government investment will fuel growth in domestic demand. Growth will also be supported by a robust US economy which, despite the strong Canadian dollar, is expected to spur an export recovery.

TABLE A.1

Economic growth in Québec
(real GDP, annual percentage change)

	2009	2010	2011	2012	Average 2010 to 2012
2011-2012 Budget	– 0.3	3.0	2.0	2.2	2.4
Update – Fall 2010	– 0.3	2.6	2.2	2.3	2.3
2010-2011 Budget	– 1.4	2.3	2.6	2.4	2.5

Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

1.2 Deficits remain unchanged for five years

On the whole, the projected budget deficits for the five years from 2009-2010 to 2013-2014 total $12.7 billion, a $189-million improvement over last year's forecast.

Thanks to lower deficits the first two years, the government is easing deficit reduction for the following two years. It is still on track to restore fiscal balance in 2013-2014.

The 2011-2012 Budget shows improvements of:

— $1 083 million in 2009-2010, when the deficit stood at $3.2 billion;

— $306 million in 2010-2011, when the deficit is expected to stand at $4.2 billion.

Furthermore, the government is easing its deficit reduction effort for the next two years, raising the deficit by:

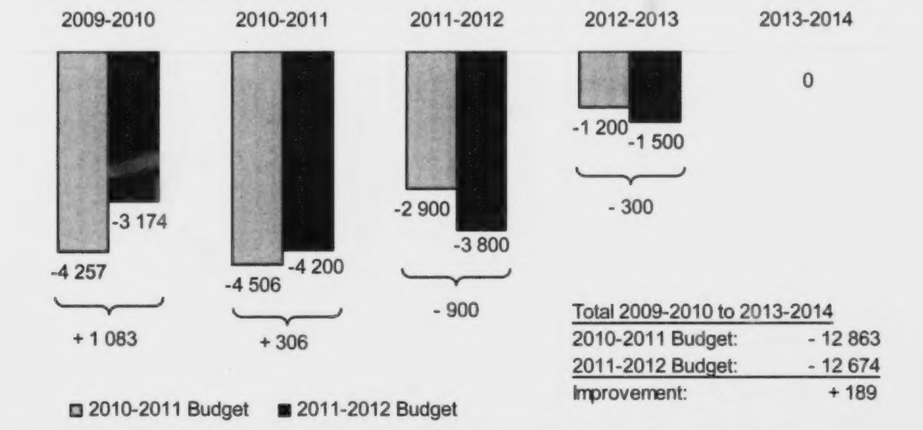
— $900 million in 2011-2012, to $3.8 billion;

— $300 million in 2012-2013, to $1.5 billion.

The deficits include contingency reserves of $300 million in 2010-2011 and 2011-2012 and $200 million in 2012-2013, for a total of $800 million over three years, to help face unforeseen events.

CHART A.2

Budgetary balances for the fiscal years from 2009-2010 to 2013-2014
(millions of dollars)



Total 2009-2010 to 2013-2014	
2010-2011 Budget:	- 12 863
2011-2012 Budget:	- 12 674
Improvement:	+ 189

☐ Changes compared with the March 2010 outlook

The table below presents the main adjustments in the deficits for the fiscal years 2010-2011 to 2012-2013 since the last budget. Overall, spending adjustments are essentially offset by additional revenue generated by the good economic performance. In particular:

— The $306-million deficit reduction in **2010-2011**, to $4.2 billion, is attributable to the higher adjustments to revenue than to expenditure as well as the better results of consolidated entities.

— The $900-million increase in the deficit for **2011-2012**, to $3.8 billion, is attributable to the addition of a $300-million contingency reserve, the $311-million decrease in efforts to be identified in the plan to restore fiscal balance, and a downward adjustment of $196 million in the results of consolidated entities.

— The upward adjustment of $300 million in the deficit for **2012-2013**, to $1.5 billion, is essentially due to the addition of $200-million contingency reserve.

TABLE A.2

Total adjustments since the 2010-2011 Budget
(millions of dollars)

	2010-2011	2011-2012	2012-2013
BALANCE IN THE 2010-2011 BUDGET	**– 4 506**	**– 2 900**	**– 1 200**
Own-source revenue excluding government enterprises	569	800	791
Government enterprises	223	53	28
Federal transfers	126	358	271
Total budgetary revenue	**918**	**1 211**	**1 090**
Program spending			
- Actuarial valuations of retirement plans	– 356	– 357	– 358
- Rise in the allowance for doubtful accounts	– 402	– 352	– 352
- Costs related to pay equity	—	– 217	– 217
- Agreements with child-care-service providers	—	– 137	– 143
- Measures in the 2011-2012 Budget	—	– 120	– 118
- Other adjustments	—	– 159	– 37
Total program spending	**– 758**	**– 1 342**	**– 1 225**
Debt service	46	38	103
Total budgetary expenditure	**– 712**	**– 1 304**	**– 1 222**
Consolidated entities[1]	**100**	**– 196**	**– 44**
Contingency reserve	—	– 300	– 200
Decrease in efforts to be identified	—	– 311	– 24
Total adjustments to the budgetary balance	**306**	**– 900**	**– 300**
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 200**	**– 3 800**	**– 1 500**

[1] Excluding the Generations Fund.

☐ Lower deficits than our main partners

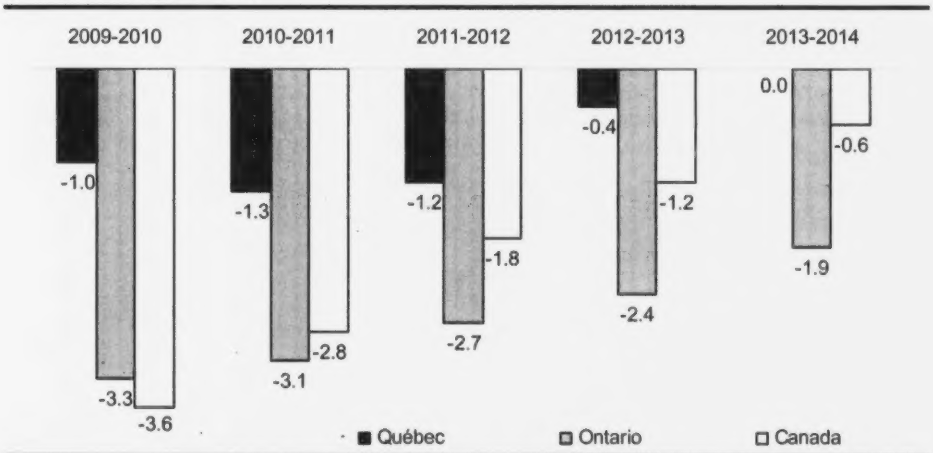
During the period from 2009-2010 to 2013-2014, Québec will post lower deficits than Ontario and Canada. More specifically, the $3.2-billion budget deficit in 2009-2010 represents 1.0% of Québec's GDP, compared with the deficits representing 3.3% and 3.6% of GDP posted by the Ontario and federal governments.

Whereas the federal government and Ontario forecast a balanced budget in 2015-2016 and 2017-2018, respectively, Québec has taken the necessary steps to bring its budget back into balance in 2013-2014 for the following reasons:

- the lower impact of the recession on Québec's economy and stronger recovery;
- the already high debt burden, which limits our ability to finance public services;
- the demographic challenge posed by the anticipated shrinking of the potential labour pool starting in 2014.

CHART A.3

Budgetary balances - 2009-2010 to 2013-2014
(as a percentage of GDP)



Sources: Ministère des Finances du Québec, Department of Finance Canada and Ontario Ministry of Finance.

Time horizon for restoring fiscal balance

The time horizons for restoring fiscal balance set by the majority of provinces changes in tandem with the budgetary impasse created by the recession.

- In 2009-2010, i.e. the fiscal year during which the recession occurred, Québec and British Columbia had similar-sized deficits. Both governments forecast a balanced budget in 2013-2014.
- The governments of Canada, New Brunswick and Ontario, for example, posted much higher deficits than Québec in 2009-2010 and will take two to four years longer to bring their budgets back into balance.

TABLE A.3

Time horizon for restoring fiscal balance – Governments of Canada and certain provinces

	Budgetary balance in 2009-2010 (% of GDP)	Projected number of years to balance budget	Year budget will be balanced
Alberta	– 0.4	4	2013-2014
British Columbia	– 0.9	4	2013-2014
Québec	**– 1.0**	**4**	**2013-2014**
New Brunswick	– 2.7	5	2014-2015
Canada – federal government	– 3.6	6	2015-2016
Ontario	– 3.3	8	2017-2018

Sources: *Public Accounts 2009-2010* and most recent official government documents.

Budget deficits of selected countries

Several jurisdictions will continue to run high deficits for the next two years.

Moreover, all of the jurisdictions in the table below foresee an improvement in their budgetary situation by the end of 2012, thanks to:

- sustained economic growth;
- the end of government economic recovery plans;
- gradual implementation of measures to restore public finances to health.

Forecast budgetary balances[1]
(as a percentage of GDP)

	2010	2011	2012
Québec –Québec government	– 1.3	– 1.2	– 0.4
Canada – Federal government	– 2.8	– 1.8	– 1.2
Other jurisdictions			
Sweden	– 0.9	– 0.1	1.0
Australia	– 3.3	– 1.7	– 0.4
Denmark	– 3.6	– 4.7	– 3.4
Germany	– 3.7	– 2.7	– 1.8
Italy	– 5.0	– 4.3	– 3.5
New Zealand	– 5.3	– 4.5	– 3.4
Netherlands	– 5.8	– 3.9	– 2.8
France	– 7.6	– 6.3	– 5.8
Japan	– 8.8	– 8.2	– 7.3
United States – Federal government	– 8.9	– 10.9	– 7.0
Spain	– 9.2	– 6.4	– 5.5
Greece	– 9.6	– 7.4	– 7.6
United Kingdom	– 10.5	– 8.6	– 6.4

[1] Budgetary balances relate to all public administrations (federal, provincial and local), except for Canada, the United States and Québec.

Sources: Budget documents of various countries, European Commission (EcoFin) and OECD's Economic Outlook.

2. STAYING THE COURSE TOWARDS A BALANCED BUDGET AND DEBT REDUCTION

In its last two budgets, the Québec government took majors steps to support the economy, ensure economic recovery and restore fiscal balance in 2013-2014. With the economic recovery well under way, this budget reaffirms that the government is staying the course towards a balanced budget and debt reduction.

In accordance with the *Balanced Budget Act*, this budget sets the government's decreasing deficit objectives for the next two years.

In addition, the government continues to exercise strict spending control. Spending is growing at a slower pace and is held below revenue growth to ensure fiscal balance is achieved.

In the 2010-2011 Budget, the government identified 90% of the measures required under the plan to restore fiscal balance and undertook to supply 62% of the total effort identified in the plan from now until 2013-2014.

- All of the spending efforts needed to deliver on that commitment have been identified or announced over the last year.
- In addition, the $1.4-billion effort identified for 2010-2011 will be achieved.

The efforts to ease the debt burden continue. To help meet the debt reduction objectives, the total funding for infrastructure investments will be gradually reduced in the coming years. In addition, 25% of mining, oil and gas royalties in excess of $200 million will be paid into the Generations Fund starting in 2014-2015.

Bringing the budget back into balance is critical. As well, it is a key means of positioning the Québec economy to meet the demographic challenge it faces.

2.1 A balanced budget in 2013-2014

Québec was one of the first jurisdictions among the advanced economies to establish a plan to restore fiscal balance that contains the crucial action required to eliminate its deficit.

— By the end of this fiscal year, the objectives set for 2010-2011 will be met.

☐ Continuation of the plan to restore fiscal balance

In the 2011-2012 Budget, the government sets the total effort required to restore fiscal balance in 2013-2014 at $12.2 billion. The measures totalling $11.2 billion identified in last March's budget represent over 90% of the total effort required. The government undertook to supply 62% of that effort, at an amount of $6.9 billion. Taxpayers will contribute $4.3 billion. This budget affirms that:

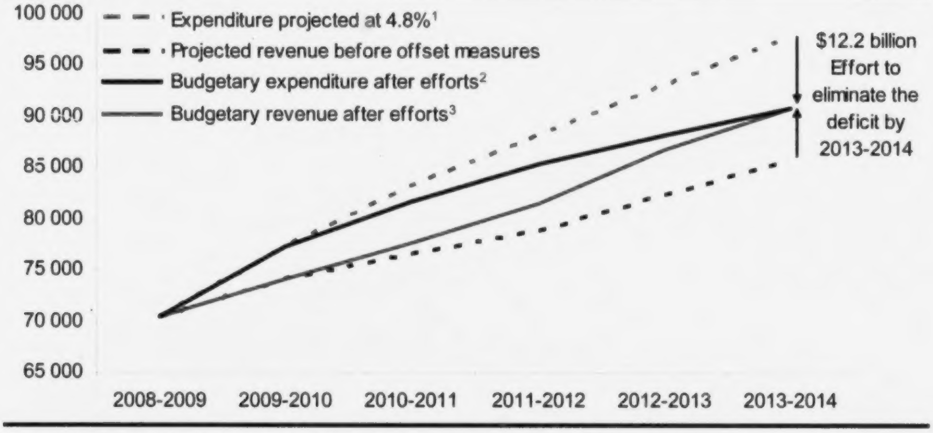
— all of the actions needed to achieve the government's $6.9-billion effort by 2013-2014 have been identified and announced over the last year;

— the objective of $1.4 billion for 2010-2011, including $1.0 billion in spending efforts, will be achieved.

The balance of measures that need to be identified to restore fiscal balance in 2013-2014 amount to $1 025 million, slightly less than the amount stated in the 2010-2011 Budget.

CHART A.4

Impact of the plan to restore fiscal balance on revenue and expenditure in the 2011-2012 Budget
(millions of dollars)



[1] Total budgetary expenditure including program spending growth of 4.8%, i.e. the average annual growth rate of program spending from 2003-2004 to 2009-2010 contained in the 2010-2011 Budget.
[2] Including payments to the Generations Fund as well as spending efforts as of 2010-2011.
[3] Including the net results of consolidated entities, the contingency reserve, the stabilization reserve and revenue efforts, in particular measures to combat tax evasion and tax avoidance.

❑ The government's five-year financial framework

Revenue will rise faster than expenditure thanks to the measures contained in the last two budgets. This will enable the government to gradually restore fiscal balance by 2013-2014. After bringing program spending growth down from 5.3% in 2009-2010 to 2.4% in 2010-2011 and 2011-2012, the government will hold it at 1.4% in 2012-2013 and 2.0% in 2013-2014.[2] The government is thus already containing its spending growth.

TABLE A.4

Québec government's financial framework – 2011-2012 Budget[1]

(millions of dollars)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Budgetary revenue						
Own-source revenue	46 925	50 336	53 883	56 351	58 311	60 296
% change	*6.3*	*7.3*	*7.0*	*4.6*	*3.5*	*3.4*
Federal transfers[2]	15 451	15 039	15 204	15 736	16 313	17 043
% change	*1.9*	*–2.7*	*1.1*	*3.5*	*3.7*	*4.5*
Total budgetary revenue	**62 376**	**65 378**	**69 087**	**72 087**	**74 624**	**77 339**
% change	**5.2**	***4.8***	**5.7**	***4.3***	***3.5***	***3.6***
Budgetary expenditure						
Program spending	– 59 819	– 61 284	– 62 113	– 63 325	– 65 510	– 67 836
% change	*2.4*	*2.4*	*1.4*	*2.0*	*3.5*	*3.6*
Debt service	– 6 934	– 7 794	– 8 646	– 9 334	– 9 333	– 9 499
% change	*13.4*	*12.4*	*10.9*	*8.0*	*–0.0*	*1.8*
Total budgetary expenditure	**– 66 753**	**– 69 078**	**– 70 759**	**– 72 659**	**– 74 843**	**– 77 335**
% change	**3.5**	**3.5**	**2.4**	**2.7**	**3.0**	**3.3**
Net results of consolidated entities	**1 209**	**1 143**	**1 119**	**655**	**742**	**972**
Contingency reserve	– 300	– 300	– 200	—	—	—
Balance of measures to be identified	—	—	300	1 025	1 025	1 025
SURPLUS (DEFICIT)	**– 3 468**	**– 2 860**	**– 453**	**1 108**	**1 548**	**2 001**
Payment of dedicated revenues to the Generations Fund						
– Regular payments	– 732	– 940	– 1 047	– 1 108	– 1 203	– 1 336
– Increase in the price of heritage electricity pool					– 315	– 630
– Mining, oil and gas royalties					– 30	– 35
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 200**	**– 3 800**	**– 1 500**	**0**	**0**	**0**

1 The government's five-year financial framework includes the measures under the plan to restore fiscal balance as well as the special funds set up over the last year: the Land Transportation Network Fund (FORT), the Fund to Finance Health and Social Services Institutions (FINESSS) and the Tax Administration Fund (FRAF).

2 The fiscal arrangements legislation, which determines the payment formulas for equalization, the Canada Health Transfer and the Canada Social Transfer, is in force until 2013-2014. The projection for these transfers as of 2014-2015 was made using the formulas currently in effect.

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[2] Growth in program spending, on a basis comparable to that of last year's budget, is slowing from a rate of 5.2% in 2009-2010 to 3.1% in 2010-2011, 3.7% in 2011-2012, 2.5% in 2012-2013 and 3.1% in 2013-2014.

As of 2014-2015, the government will keep spending growth to a rate compatible with revenue growth. It also intends to speed up payments to the Generations Fund using the sums generated by the rise in the price of heritage pool electricity, as stipulated in the *Act to reduce the debt and establish the Generations Fund* (R.S.Q., c. R-2.2.0.1). In addition, the government will pay 25% of mining, oil and gas royalties in excess of $200 million into the Fund.

2.2 Decreasing budget deficit objectives for 2011-2012 and 2012-2013

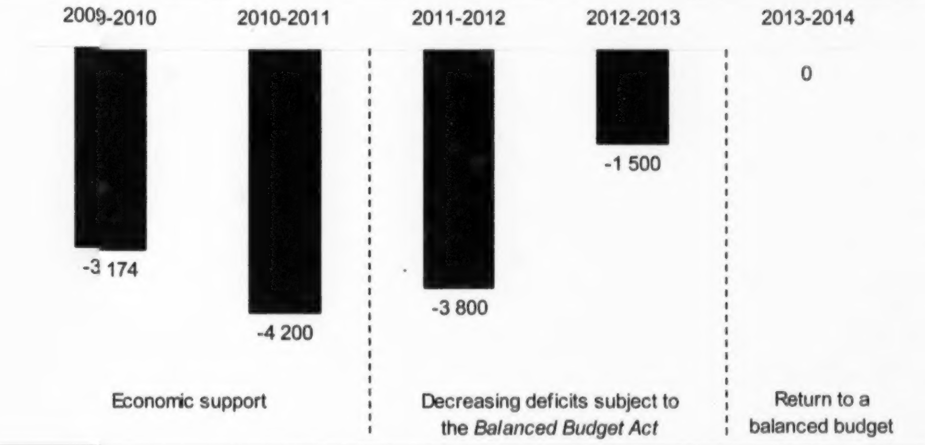
In the fall of 2009, the National Assembly passed a bill amending the *Balanced Budget Act* to provide, in particular, for gradual elimination of the deficit by 2013-2014. The Act also stipulates that, no later than the 2011-2012 Budget, the government must set definitive objectives for decreasing budget deficits for each of the fiscal years 2011-2012 and 2012-2013.

To that end, the 2011-2012 Budget sets decreasing budget deficit objectives of $3.8 billion for 2011-2012 and $1.5 billion for 2012-2013.

In the event that there is an overrun relative to the deficit objective, the first billion dollars must be offset the following year and any surplus, over the subsequent years.[3]

CHART A.5

Budgetary balance in compliance with the *Balanced Budget Act*
(millions of dollars)



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[3] For additional information on the *Balanced Budget Act*, see section G of this document.

2.3 Change in government spending

The government will meet its budget deficit reduction targets by slowing the rate of spending growth.

2.3.1 Efforts on the part of all government departments

Program spending will climb from $59.8 billion in 2010-2011 to $61.3 billion in 2011-2012, an increase of $1 465 million, or 2.4%.

TABLE A.5

Growth in program spending in 2011-2012
(millions of dollars)

	2010-2011	2011-2012	Change	
			$ million	%
Santé et Services sociaux	28 116	29 141	1 025	3.6
Éducation, Loisir et Sport	15 213	15 541	328	2.2
Famille et Aînés	2 250	2 387	137	6.1
Other departments	14 240	14 215	– 25	– 0.2
TOTAL	**59 819**	**61 284**	**1 465**	**2.4**

Note: Since figures are rounded, the sum of the amounts entered for each portfolio may not correspond to the total.
Source: Secrétariat du Conseil du trésor.

All government departments will have to take part in the collective effort to restore fiscal balance. More specifically, to meet the spending target in 2011-2012:

- program spending by the Ministère de la Santé et des Services sociaux will rise by 3.6%;
- spending allocated to the Ministère de l'Éducation, du Loisir et du Sport will increase by 2.2%;
- that of the Ministère de la Famille et des Aînés will be raised by 6.1%;
- spending by all other departments will drop by 0.2%.

2.3.2 Change in program spending since the 2010-2011 Budget

In the 2010-2011 Budget, program spending including expenditures financed by the health contribution deposited in the Fund to Finance Health and Social Services Institutions (FINESSS) stood at $62.7 billion in 2010-2011, an increase of 3.2%, and was forecast to grow at an annual rate of 2.8% between 2011-2012 and 2013-2014, for an average annual growth rate of 2.9%.

TABLEAU A.6

Change in program spending since the 2010-2011 Budget
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Program spending in the 2010-2011 Budget	**– 60 769**	**– 62 561**	**– 63 907**	**– 65 282**	**– 66 686**
% change	*3,8*	*2,9*	*2,2*	*2,2*	*2,2*
FINESSS expenditures	—	– 180	– 575	– 995	– 1 445
Program spending in the 2010-2011 Budget – Increased by FINESSS expenditures	**– 60 769**	**– 62 741**	**– 64 482**	**– 66 277**	**– 68 131**
% change	*3,8*	*3,2*	*2,8*	*2,8*	*2,8*
Adjustments					
Actuarial valuations of retirement plans	—	– 356	– 357	– 358	– 360
Increase in the allowance for doubtful accounts	– 402	– 402	– 352	– 352	– 352
Costs related to pay equity	—	—	– 217	– 217	– 217
Agreement with child-care-service providers	—	—	– 137	– 143	– 143
Other adjustments	– 408	—	– 279	– 155	– 378
Total adjustments	**– 810**	**– 758**	**– 1 342**	**– 1 225**	**– 1 450**
Program spending in the 2011-2012 Budget – Basis comparable to that of the 2010-2011 Budget	**– 61 579**	**– 63 499**	**– 65 824**	**– 67 502**	**– 69 581**
% change	*5,2*	*3,1*	*3,7*	*2,5*	*3,1*
Impact of FORT and FRAF	2 290	2 600	3 115	3 544	3 961
Impact of FINESSS	—	180	575	995	1 445
Reclassification of the allowance for doubtful accounts under revenue	900	900	850	850	850
Program spending in the 2011-2012 Budget	**– 58 389**	**– 59 819**	**– 61 284**	**– 62 113**	**– 63 325**
% change	*5,3*	*2,4*	*2,4*	*1,4*	*2,0*

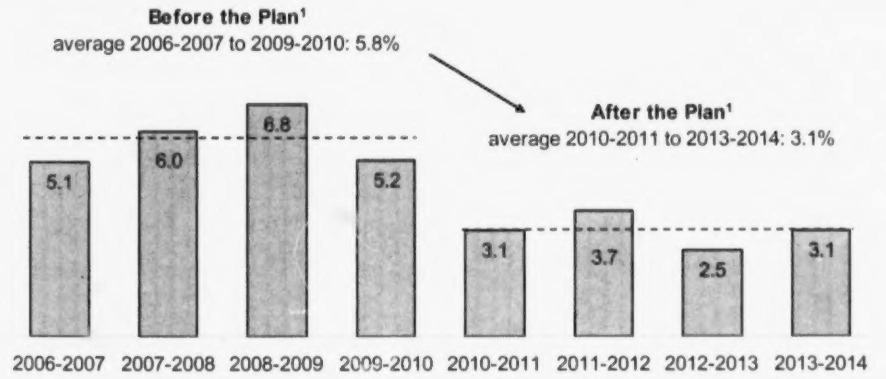
The spread between these spending figures and those in the 2011-2012 Budget is attributable to two factors, namely the adjustments to spending and the impacts of two other special funds:[4]

- the fund for financing road and public transit infrastructure (FORT);
- the fund for financing the Agence du revenu (FRAF). Moreover, the *Act respecting the Agence du revenu du Québec* (R.S.Q., c. A-70.003) stipulates that the allowance for doubtful accounts will be applied against budgetary revenue, whereas previously it was shown under program spending.

For the period from 2010-2011 to 2013-2014, the average annual growth in program spending in the 2011-2012 Budget, increased by FINESSS expenditures and presented on a basis comparable to that of the 2010-2011 Budget, is 3.1%, compared with the 2.9% annual growth forecast in last year's budget. This is a slowdown from the average annual growth rate of 5.8% posted between 2006-2007 and 2009-2010.[5]

CHART A.6

Change in program spending growth according to the presentation used in the 2010-2011 Budget
(per cent)



1 Plan to restore fiscal balance.

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[4] The implementation of these funds modifies the level of revenue and expenditure because these activities are henceforth accounted for in the results of consolidated entities. These allocations do not have an impact on the government's budgetary balance. For additional information, see Appendix 3 of Section C of this document.

[5] For the period 2003-2004 to 2009-2010, program spending grew at an average annual rate of 5.0%.

2.3.3 The government's consolidated expenditure

The following table shows the change in consolidated expenditure, i.e. total spending in the government reporting entity.

- In addition to program spending, consolidated expenditure includes spending by special funds, non-budget-funded bodies and the health and social services and education networks, among others.
- Consolidated expenditure for all departments and organizations is expected to rise by 3.8% in 2011-2012 and 3.3% in 2012-2013.

TABLE A.7

Change in consolidated expenditure[1] – 2011-2012 Budget

(millions of dollars)

	2010-2011	2011-2012	2012-2013
Program spending	**59 819**	**61 284**	**62 113**
% change	*2.4*	*2.4*	*1.4*
Special funds	**10 234**	**10 862**	**11 939**
% change	*5.7*	*6.1*	*9.9*
Non-budget-funded bodies	**17 158**	**17 947**	**18 471**
% change	*4.1*	*4.6*	*2.9*
Health and social services and education networks	**34 748**	**36 305**	**37 924**
% change	*3.9*	*4.5*	*4.5*
Elimination of transactions between entities	– 49 936	– 51 639	– 53 214
Consolidated expenditure of departments and organizations	**74 023**	**74 759**	**77 233**
% change	*3.9*	*3.8*	*3.3*
Specified purpose accounts	**1 942**	**1 697**	**1 397**
Debt service of the consolidated revenue fund	**6 934**	**7 794**	**8 646**
% change	*13.4*	*12.4*	*10.9*
Consolidated expenditure[2]	**82 899**	**84 250**	**87 276**
% change	*5.7*[3]	*4.1*	*3.6*

[1] For additional information, see Section C of this document.

[2] In 2009-2010, the consolidated expenditure shown in the public accounts was $76 566 million.

[3] When the $790-million increase in expenditures in respect of specified purpose accounts stemming essentially from infrastructure agreements with the federal government is excluded, growth of consolidated expenditure in 2010-2011 stood at 4.6%.

More specifically:

- **program spending** is expected to rise by 2.4% in 2011-2012 and 1.4% in 2012-2013;
- **spending by special funds** is expected to grow by 6.1% in 2011-2012 and 9.9% in 2012-2013. The increase is essentially attributable to the rising costs of road and public transit infrastructure for the FORT, funded through dedicated revenue, and the expenditures of the FINESSS for health and social services institutions, funded by the health contribution;
- **spending by non-budget-funded bodies** is anticipated to grow by 4.6% in 2011-2012 and 2.9% in 2012-2013. The increase will result primarily from spending by the Régie de l'assurance-maladie du Québec and the Société de financement des infrastructures locales du Québec.

These expenditures are in addition to those of the **specified purpose accounts**, which essentially correspond to spending funded by the federal government, as well as the expenditures of the **consolidated revenue fund to service the debt**.

Composition of the government's consolidated expenditure[1]

As of the 2010-2011 Budget, the government also reports not only on growth in spending by the consolidated revenue fund, but also growth in consolidated expenditure.

Consolidated expenditure includes all spending by the Québec government. Consolidated expenditure for 2010-2011 should stand at $80.9 billion. In addition to program spending, it includes the expenditures of:

- the 35 special funds, such as the FORT and the FRAF enabling creation of the Agence du revenu du Québec in 2011-2012;
- the 68 non-budget-funded bodies that deliver special services to the population or the public sector (museums, commissions, etc.);
- the 339 entities comprising the health and social services and education networks;
- specified purpose accounts established primarily pursuant to special agreements with the federal agreements;
- debt service of the consolidated revenue fund.

[1] For a more detailed explanation of the government's consolidated budgetary transactions, see Section C of this document.

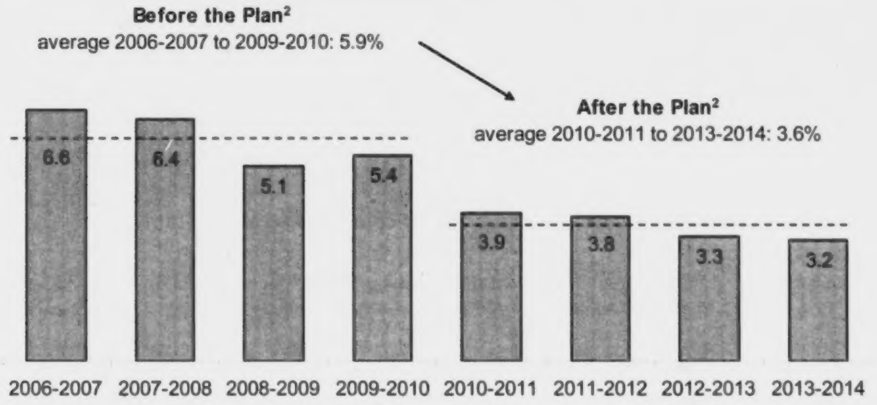
☐ Change in consolidated expenditure

Total consolidated expenditure of government departments and organizations will increase to 3.8% in 2011-2012 and 3.3% in 2012-2013. The annual growth rate for the period from 2010-2011 to 2013-2014 will average 3.6%, a marked slowdown compared with the 5.9% average growth during the period from 2006-2007 to 2009-2010.

CHART A.7

Growth in consolidated expenditure of departments and organizations[1] – Budget 2011-2012

(per cent)



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[1] In addition to program spending, the consolidated expenditure of departments and organizations includes spending by special funds, non-budget-funded bodies and the health and social services and education networks.

[2] Plan to restore fiscal balance.

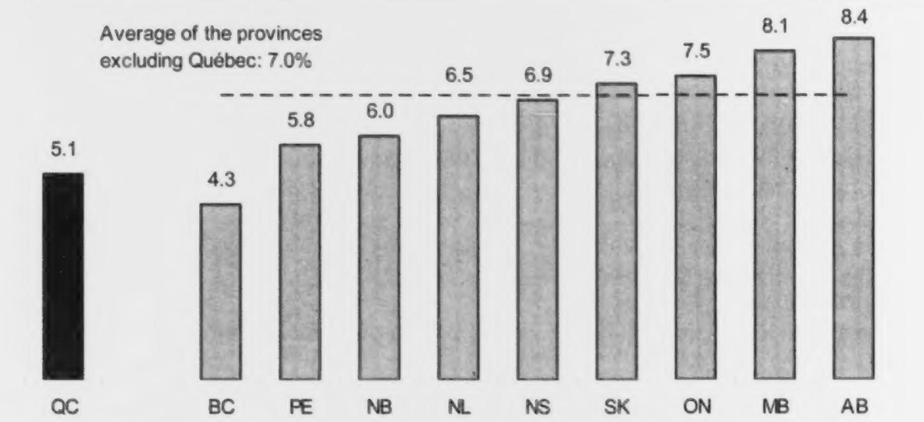
☐ Better control over consolidated expenditure

Québec and British Columbia are the two provinces that have best controlled their spending since 2003-2004.

— In Québec, consolidated expenditure excluding debt service rose an average of 5.1% per year from 2003-2004 to 2010-2011, compared with annual average growth of 7.0% in the other provinces over the same period.

CHART A.8

Consolidated expenditure of the provinces excluding debt service[1,2]
Average annual growth between 2003-2004 and 2010-2011
(per cent)



[1] Most recent official document concerning the jurisdictions, dated March 10, 2011.
[2] For Québec, debt service is the debt service of the consolidated revenue fund.
Sources: Provincial finance departments and Department of Finance Canada.

2.4 Debt reduction

In the 2010-2011 Budget, the government set new debt reduction objectives to be met by 2025-2026, namely reduce to:

- 17% of GDP for the debt resulting from accumulated deficits;
- 45% of GDP for the gross debt.

To help meet these objectives, the budget provided for:

- a balanced budget in 2013-2014 and subsequent years;
- the acceleration, as of 2014-2015, of the payment of sums generated by the increase in the price of heritage pool electricity to the Generations Fund.

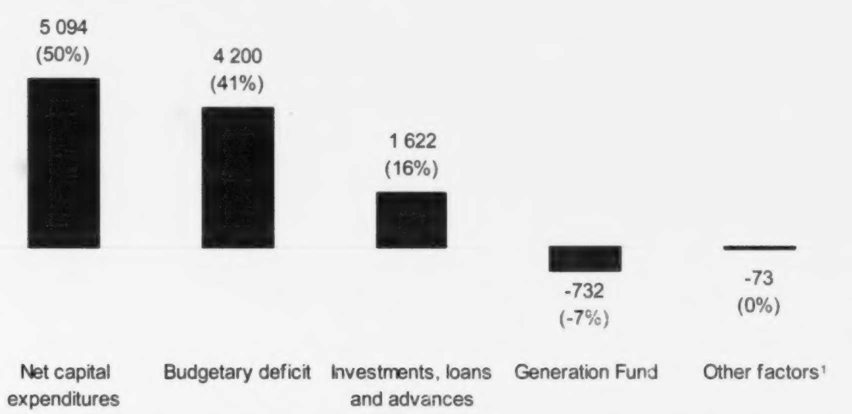
Two new initiatives are announced in this budget to contribute to the debt reduction objectives:

- First, the government will gradually reduce total investments under the Québec Infrastructures Plan in the coming years, while maintaining the quality of public infrastructure.
- In addition, 25% of mining, oil and gas royalties in excess of $200 million will be paid into the Generations Fund as of 2014-2015.

These initiatives will have a direct impact on the main factors affecting the debt.

CHART A.9

Growth factors of the gross debt in 2010-2011
(millions of dollars)



[1] The other factors include, in particular, the change in "other accounts" such as accounts receivable, accounts payable and the change in the debt in foreign currencies.

☐ Infrastructure investment targets from now until 2025-2026

In the last few years, the government accelerated investment in public infrastructure to:

- retrofit infrastructure and meet new needs;
- support the economy and employment during the recession.

To consolidate Québec's economic recovery, the level of annual infrastructure spending will be set at $9.6 billion in 2011-2012 to enable numerous projects for roads, municipal infrastructure, schools and hospitals in the regions of Québec.

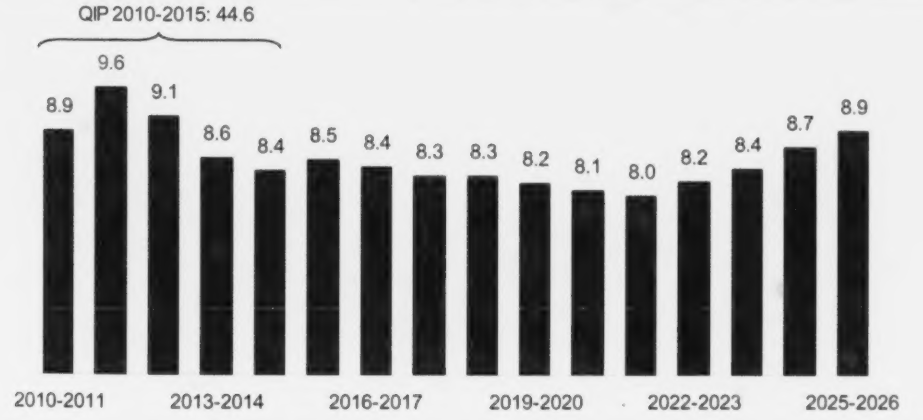
As of 2012-2013, the government will gradually reduce the total funding for infrastructure investment[6] from $9.2 billion on average between 2010-2011 and 2012-2013 to:

- $8.5 billion in 2015-2016;
- $8.0 billion in 2021-2022.

Even with the gradual decrease in total investment budgets, the government will be in a position to completely eliminate the maintenance deficit by 2022-2023 and continue investing to maintain assets in accordance with the *Act to promote the maintenance and renewal of public infrastructures*.

CHART A.10

Annual investment under the Québec Infrastructures Plan
(billions of dollars)



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[6] Appendix 1 shows the five-year funding envelopes allocated to infrastructure investment.

In the coming year, the government will re-assess the sums needed to eliminate the maintenance deficit that were determined in 2007 and examine needs with regard to maintaining assets.

Furthermore, the gradual reduction of infrastructure investment targets will result in a decline in their weight in the economy. After hitting a high of 2.9% of GDP in 2011-2012, the weight of government infrastructure investment will be gradually decreased to 1.7% of GDP by 2021-2022.

— Nevertheless, annual infrastructure spending as a percentage of GDP will remain above pre-2008 levels for the next 10 years.

These new investment targets will make it possible to continue increasing the importance of public capital stock in the economy, a key determinant of productivity. After rising from 22.5% of GDP in 2002 to 26.5% in 2010, public capital stock as a share of GDP will continue to increase, growing to 30.0% in 2018 before levelling off in the years thereafter.

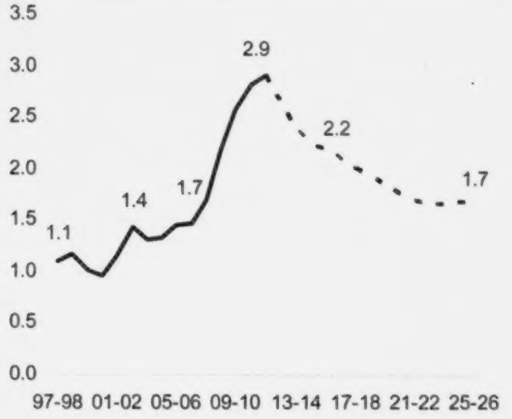
— The ground made up will return public capital stock to the level it was at in early 1980s, over 30 years ago.

As of 2022-2023, the level of government infrastructure investment will make it possible to maintain the value of capital stock in the economy.

CHART A.11

Annual investment under the Québec Infrastructures Plan

(as a percentage of GDP)

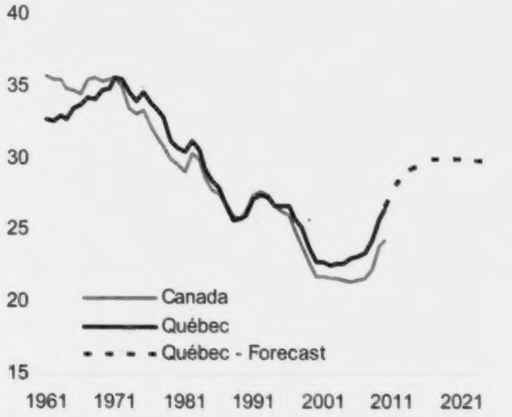


Sources: Ministère des Finances du Québec and Secrétariat du Conseil du trésor.

CHART A.12

Public capital stock

(as a percentage of GDP, in 2002 dollars)



Sources: Statistics Canada and Ministère des Finances du Québec.

☐ Additional payments to the Generations Fund from the increase in mining, oil and gas royalties

This budget stipulates that as of 2014-2015, additional payments corresponding to 25% of any amount in excess of $200 million in mining, oil and gas royalties received by the government will be paid into the Generations Fund.

These additional payments will represent $30 million and $35 million in 2014-2015 and 2015-2016 respectively. Thereafter, the amounts allocated to the Generations Fund will be determined each year as part of the budget tabled by the Minister of Finance.

To that end, legislative amendments will be made to the *Act to reduce the debt and establish the Generations Fund* to add these new revenue sources.

2.5 Taking immediate action is crucial

Québec has gained from the strategy adopted by the government in the last two budgets. In particular, the Québec economy withstood the recession better than its main partners and the recovery was accompanied by greater job creation than in the rest of Canada and the United States. Moreover, Québec will post smaller deficits than its neighbours.

The government is reiterating the importance of restoring fiscal balance by 2013-2014 to better meet the challenges facing Québec.

- Québec's debt is higher than that of the jurisdictions it competes against.
- Québec's potential labour pool will start shrinking in the coming years.

Lastly, the same as a deficit limits the government in funding its missions, restoring balance to public finances will enable it to provide greater support for public services delivered to Quebecers.

☐ Highest debt level in Canada

The deficits posted up until the mid-1990s contributed to making Québec the most indebted province in Canada. The projected shortfalls from now until 2013-1014, along with public infrastructure investment, will add to Québec's debt load over the coming years and further reduce the government's leeway to fund public services.

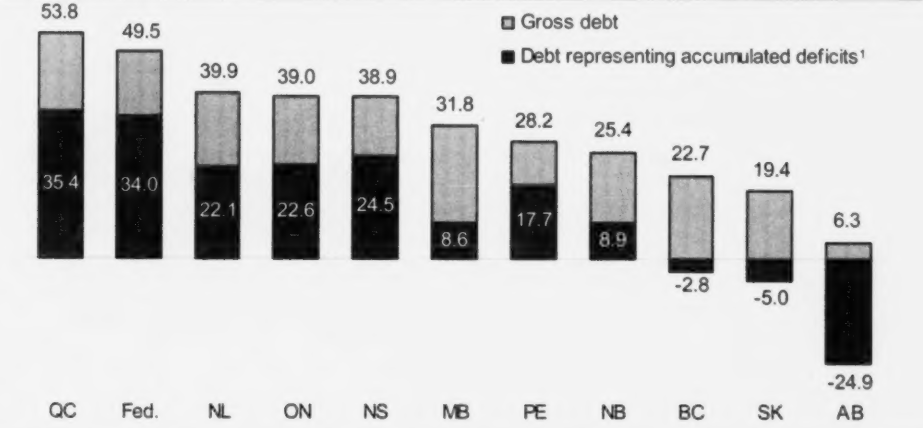
— At $163.3 billion as at March 31, 2010, the gross debt is equivalent to 53.8% of GDP, i.e. nearly 26 percentage points more than the average of the other provinces.[7]

— On the basis of debt representing accumulated deficits, the Québec government's debt-to-GDP ratio of 35.4% as at March 31, 2010, makes Québec the most indebted province in Canada.[8]

CHART A.13

Gross debt and debt representing accumulated deficits as at March 31, 2010

(as a percentage of GDP)



1 A negative entry means that the government has an accumulated surplus.

Sources: Ministère des Finances du Québec, government public accounts and Statistics Canada.

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[7] The average gross debt of the other nine provinces is 28.0% of GDP.

[8] For additional information on the Québec government's debt and a comparison with that of the other Canadian provinces, see Section D of this document.

❑ A special demographic challenge

Several industrialized countries will be faced with faster population aging over the next two decades.

The phenomenon will add pressure to public spending, especially in the areas of health care and public retirement plans.

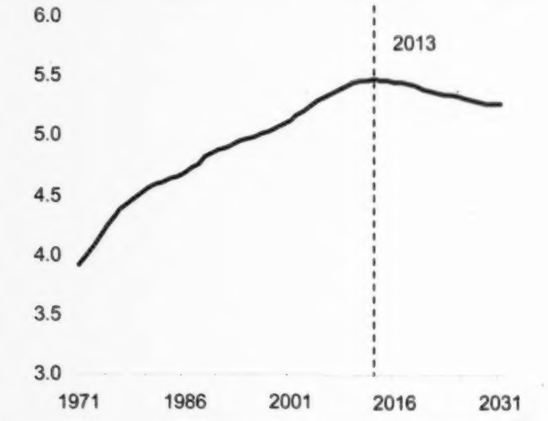
Unlike in Québec, some jurisdictions will see their labour pool grow by 2030, enabling them to partially offset the impact of this demographic transition. This is the case, for example, for Canada, the United States and Ontario.

- Between 2013 and 2030, the population aged 15-64 will swell by 5.5% in Canada, 4.6% in the United States and 9.6% in Ontario.
- In Québec, the population aged 15-64 will peak in 2013 and contract by 3.8% between 2013 and 2030.

CHART A.14

Population aged 15-64

(millions of people)

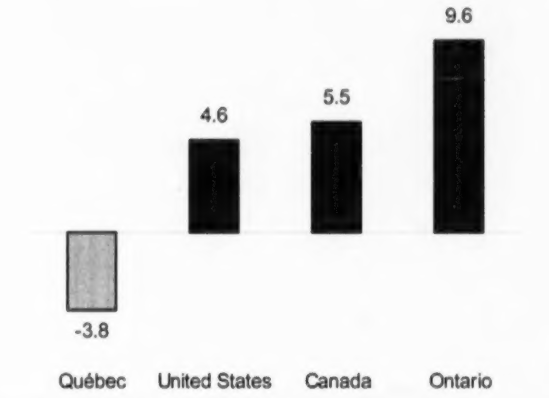


Source: Institut de la statistique du Québec (2009).

CHART A.15

Change in population aged 15-64 - 2013 to 2030

(per cent)



Sources: Institut de la statistique du Québec, U.S. Census Bureau, Statistics Canada and Ontario Ministry of Finance.

3. ACTION WITH A DEVELOPMENTAL EFFECT ON QUÉBEC'S FUTURE

The government is continuing to take developmental action to ensure economic growth and respond to the demographic challenge. It has also entered the next stage in the long-term funding of public services. The 2011-2012 Budget includes a funding plan to ensure the excellence of Québec universities, after establishing a five-year framework for health spending last year.

3.1 New economic initiatives

This budget provides for the funding of initiatives to develop the Québec economy's full potential. It allocates $171 million in 2011-2012, $215 million in 2012-2013 and $335 million in 2013-2014 to initiatives that will:

- continue implementing the Northern Plan and optimize the yield of our natural resources for the benefit of all Quebecers;
- increase university funding and encourage experienced workers to remain in, or return to, the labour market;
- develop our export markets and promote entrepreneurship and business succession;
- consolidate our solidarity tools to improve Quebecers' quality of life;
- promote Québec culture on the world stage and make the digital shift in the culture industry;

TABLE A.8

Financial impact of the new initiatives to create future wealth for all Quebecers
(millions of dollars)

	2011-12	2012-13	2013-14
Implementing and funding the Northern Plan	– 17.7	– 29.3	– 41.8
Optimizing natural resource yield	– 48.6	– 6.0	– 6.0
Investing in the potential of Quebecers	– 19.6	– 78.2	– 131.8
Seizing opportunities: exports and entrepreneurship	– 32.0	– 40.1	– 51.3
Consolidating our solidarity tools	– 31.0	– 49.4	– 92.4
Celebrating Québec culture	– 5.6	– 6.6	– 7.5
Other measures	– 16.2	– 5.8	– 4.4
TOTAL NEW INITIATIVES	**– 170.7**	**– 215.4**	**– 335.2**

3.2 Québec university funding plan

The government is introducing a six-year university funding plan[9] for the period 2011-2012 to 2016-2017.

- Universities will have access to additional revenue of $850 million in 2016-2017.
- Over half this additional revenue, i.e. $430 million, will come from the government.
- Students will contribute their fair share to the university funding plan. As of fall 2012, tuition fees will be raised by $325 per year up to 2016-2017, bringing them to the same level as in 1968, taking inflation into account.
- A university education will continue to be financially accessible for students. In particular, all students receiving financial assistance under the Loans and Bursaries Program will be compensated in full for the tuition fee increase. An amount equivalent to 35% of the revenue from the tuition fee increase will be remitted to students through the Loans and Bursaries Program.
- Universities are being asked to collect more funds from individuals and businesses. The government will match donations from individuals and businesses.
- Partnership agreements with universities will ensure that the additional resources will be used to improve the quality of teaching and research and thus benefit students directly.

TABLE A.9

University funding plan – Additional revenue for universities
(millions of dollars, impact on an academic year basis)

Contributions	**2011-2012**	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**
Québec government	74	117	149	263	357	430
Students	41	90	144	193	231	265
Other revenue sources for universities	24	45	66	81	92	101
Donation from individuals and businesses	9	18	27	35	44	54
TOTAL ADDITIONAL REVENUE	**148**	**270**	**386**	**572**	**724**	**850**

Note: Since figures are rounded, they may not add up to the totals shown.

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[9] For additional information, see the budget paper entitled *A Fair and Balanced University Funding Plan.*

3.3 For a more efficient health-care system

As part of its last budget, the government adopted a balanced approach to health funding by holding annual growth in total health and social services spending to 5.0% until 2013-2014. This budget affirms that commitment.

- The government is limiting growth in spending on health programs to 3.6%.
- It also determined that the sums collected through the health contribution will be paid into a new fund, referred to as the FINESSS, to directly finance health and social services institutions as well as initiatives to improve performance and accessibility.
- The expenditures made from FINESSS, combined with program and other health spending, ensure an annual growth rate of 5.0% in total health and social services spending.

TABLE A.10

Total health and social services spending

(millions of dollars)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Program spending	**– 28 116**	**– 29 141**	**– 30 190**	**– 31 279**	**– 32 897**	**– 34 594**
% change	2.4	3.6	3.6	3.6	5.2	5.2
FINESSS expenditures	– 180	– 575	– 995	– 1 445	– 1 445	– 1 445
Other health spending[1]	– 4 169	– 4 376	– 4 596	– 4 828	– 5 071	– 5 327
Total health and social services spending	**– 32 465**	**– 34 092**	**– 35 781**	**– 37 552**	**– 39 413**	**– 41 366**
% change	***3.4***[2]	***5.0***	***5.0***	***5.0***	***5.0***	***5.0***

[1] Includes chiefly the prescription drug insurance plan.

[2] Excluding the additional health expenditures of $487 million between the 2010-2011 Budget and the tabling of the *Public Accounts 2009-2010*, health and social services spending grew by 5.0% in 2010-2011.

☐ Continuing to improve performance and accessibility

Including the health contribution, FINESSS received funding of $180 million in 2010-2011. The government is announcing that the funding amount will be raised to $575 million in 2011-2012 and used to finance the following:

- $150 million for the **seniors** investment plan;
- $100 million for the creation and consolidation of **family medicine groups**;
- $18 million for training and hiring of **specialized nurse practitioners**;
- $100 million for financing **surgeries** based on volume and performance;
- $50 million for funding **new facilities**;
- $5 million for **performance improvement** projects ("Lean Health Care" approach);
- $7 million for **optimization assistance**, including
  - $3 million for new network initiatives to improve the performance of health and social services institutions;
  - $1 million to develop personalized health care.

TABLE A.11

FINESSS expenditures, 2010-2011 and 2011-2012
(millions of dollars)

	2010-2011	2011-2012
Access to front-line services		
Seniors investment plan	20	150
Family medicine groups	78	100
Specialized nurse practitioners	12	18
Access to surgery and increase in volume of services		
Maintenance of access to surgeries	40	100
Operation of new facilities	25	50
Performance improvement		
"Lean Health Care" projects	2	5
Optimization assistance	3	7
Surgeries[1]	—	145
TOTAL	**180**	**575**

[1] This measure enables funding based on the volume of surgeries.

Reinforced and improved services for seniors

The seniors investment plan will strengthen the service continuum given the different situations seniors may experience in life as well as improve access to health care for the entire population. Funding of $150 million will be allocated to the plan in 2011-2012.

This change in the service offer and intervention mechanisms will result in numerous benefits in terms of quality, accessibility and performance, in particular:

- a chance for more seniors to keep living in their home;
- easing of emergency room congestion;
- faster availability of hospital beds thanks to a fuller range of transition and home support services;
- an array of services better tailored to the reality of seniors after leaving the hospital.

☐ Five-year spending plan for health and social services

This budget holds growth in total health and social services spending at 5.0% per year until 2015-2016. This represents an increase from $32.5 billion in 2011-2012 to $41.4 billion in 2015-2016.

Program spending from the consolidated revenue fund will rise by 3.6% per year until 2013-2014, i.e. the period covered by the plan to restore fiscal balance, and by 5.2% thereafter. Spending assumed by users and others will climb by 13.0% from 2011-2012 to 2013-2014 and by 3.9% thereafter.

In the 2010-2011 Budget, the government estimated a funding shortfall of $500 million in 2013-2014. This amount, which still needs to be identified, is included in the total $1 025 million in measures that still need to be identified to restore fiscal balance in 2013-2014.

TABLE A.12

Total health and social services spending[1] and sources of funding, 2009-2010 to 2015-2016

(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
TOTAL HEALTH AND SOCIAL SERVICES SPENDING							
Program spending from the consolidated revenue fund	**– 27 467**	**– 28 116**	**– 29 141**	**– 30 190**	**– 31 279**	**– 32 897**	**– 34 594**
% change	***7.2***	***2.4***	***3.6***	***3.6***	***3.6***	***5.2***	***5.2***
FINESSS expenditures	—	– 180	– 575	– 995	– 1 445	– 1 445	– 1 445
Other health spending	– 3 932	– 4 169	– 4 376	– 4 596	– 4 828	– 5 071	– 5 327
Subtotal	**– 3 932**	**– 4 349**	**– 4 951**	**– 5 591**	**– 6 273**	**– 6 516**	**– 6 772**
% change	***– 5.0***	***10.6***	***13.8***	***12.9***	***12.2***	***3.9***	***3.9***
TOTAL HEALTH AND SOCIAL SERVICES SPENDING	**– 31 399**	**– 32 465**	**– 34 092**	**– 35 781**	**– 37 552**	**– 39 413**	**– 41 366**
% change	***5.5***	***3.4***[2]	***5.0***	***5.0***	***5.0***	***5.0***	***5.0***
SOURCES OF FUNDING FOR HEALTH AND SOCIAL SERVICES SPENDING							
1. Dedicated government revenues							
– Health Services Fund	5 797	5 863	6 047	6 272	6 501	6 711	6 923
– Contributions from the federal government[3]							
▪ Canada Health Transfer	4 015	4 251	4 458	4 759	5 067	5 391	5 787
▪ Notional portion of the special Québec abatement related to the Canada Health Transfer	1 723	1 883	1 939	2 007	2 078	2 151	2 224
▪ Other	343	250	167	167	167	109	109
Subtotal	**11 878**	**12 247**	**12 611**	**13 205**	**13 813**	**14 362**	**15 043**
% change	***6.7***	***3.1***	***3.0***	***4.7***	***4.6***	***4.0***	***4.7***
2. User fees							
– Contributions from users	2 517	2 522	2 690	2 760	2 832	2 906	2 981
– Contributions from the SAAQ	—	—	115	117	119	121	123
– Contributions from other bodies	356	367	378	389	401	413	425
– Own-source revenues from other sources	1 050	1 093	1 107	1 122	1 136	1 151	1 166
Subtotal	**3 923**	**3 982**	**4 290**	**4 388**	**4 488**	**4 591**	**4 696**
% change	***– 0.3***	***1.2***	***7.7***	***2.3***	***2.3***	***2.3***	***2.3***
3. Other taxes from the consolidated revenue fund[4]	**15 598**	**16 056**	**16 615**	**17 193**	**17 806**	**19 015**	**20 182**
% change	***6.2***	***9.3***	***3.5***	***3.5***	***3.6***	***6.8***	***6.1***
4. FINESSS revenues							
– Health contribution	—	180	575	945	945	945	945
– Other contributions to be identified	—	—	—	50	500	500	500
TOTAL REVENUE	**31 399**	**32 465**	**34 092**	**35 781**	**37 552**	**39 413**	**41 366**
% change	***5.5***	***3.4***[2]	***5.0***	***5.0***	***5.0***	***5.0***	***5.0***

Note: Since figures are rounded, the sum of the amounts entered for each portfolio may not correspond to the total.

[1] Total spending by the Ministère de la Santé et des Services sociaux and health and social services institutions.

[2] Excluding additional health spending of $487 million between the 2010-2011 Budget and tabling of the *Public Accounts 2009-2010*, health spending grew by 5% in 2010-2011.

[3] The fiscal arrangements legislation, which determines the payment formulas for equalization, the Canada Health Transfer and the Canada Social Transfer, is in force until 2013-2014. The projection for these transfers as of 2014-2015 was made using the formulas currently in effect.

[4] For the purposes of the health accounts, the deficits of health and social services institutions are covered by the other taxes from the consolidated revenue fund.

4. THE PLAN TO RESTORE FISCAL BALANCE

In 2010, the government deployed the initial spending growth reduction measures as well as the initial revenue measures provided for in the plan to restore fiscal health.

— This budget confirms that the objectives set for 2010-2011 will be achieved.

Taking into account all monetary adjustments reported since the 2010-2011 Budget, the adjusted amount of measures that need to be implemented to restore fiscal balance by 2013-2014 is $12.2 billion, a similar sum to that identified last year.

— Of that amount, $11.2 billion in measures, or 90% of the total effort, were identified in the last two budgets. This brings the value of measures to be identified by 2013-2014 down slightly from $1 051 million in March 2010 to $1025 million in this budget.

☐ Apportioning of efforts respected

The 2011-2012 Budget makes no changes to the apportioning of the $11.2-billion effort between the government and taxpayers.

— The government committed to a contribution of $6.9 billion by 2013-2014, or 62% of the total effort identified.

— Individual and businesses will contribute $4.3 billion by 2013-2014, or 38% of the total effort identified.

TABLE A.13

Follow-up on the plan to restore fiscal balance

(millions of dollars)

	2010-2011					
	March 2010 Budget	March 2011 Budget	2011-2012	2012-2013	2013-2014	
BUDGETARY BALANCE BEFORE THE PLAN TO RESTORE FISCAL BALANCE - 2010-2011 BUDGET	**- 6 709**	**- 6 709**	**- 8 489[1]**	**- 10 366[1]**	**- 12 236[1]**	
Adjustments - 2011-2012 Budget						
Budgetary revenue	—	918	1 211	1 090	1 083	
Budgetary expenditure	—	- 712	- 1 304	- 1 122	- 1 196	
Consolidated entities	—	100	- 196	- 44	139	
Contingency reserve	—	—	- 300	- 200	—	
Decrease in efforts to be identified	—	—	- 311	- 24	- 26	
Total adjustments - 2011-2012 Budget	—	**- 306**	**- 900**	**- 300**	—	
Other adjustments to revenue offset by the efforts of public bodies	—	- 27	—	—	—	
Other adjustments to expenditure offset by the efforts of departments and organizatins	—	- 405	—	—	—	
BUDGETARY BALANCE BEFORE THE PLAN TO RESTORE FISCAL BALANCE	**- 6 709**	**- 6 835**	**- 9 389**	**- 10 666**	**- 12 236**	
PLAN TO RESTORE FISCAL BALANCE						
Government's efforts						
- Departments and organizations	1 152	1 557	2 864	4 694	6 649	62%
- Additional funding for health and social services institutions	- 180	- 180	- 575	- 995	- 1 445	
Subtotal	**972**	**1 377**	**2 289**	**3 699**	**5 204**	
- Public bodies	80	107	240	365	530	
- Fight against tax evasion and tax avoidance	320	320	555	875	1 200	
Subtotal	**1 372**	**1 804**	**3 084**	**4 939**	**6 934**	
Taxpayer efforts						
- Individuals	421	421	1 553	2 329	2 536	38%
- Health contribution	180	180	575	945	945	
Subtotal	**601**	**601**	**2 128**	**3 274**	**3 481**	
- Enterprises and other	230	230	377	653	796	
Subtotal	**831**	**831**	**2 505**	**3 927**	**4 277**	
Total effort to be identified	**2 203**	**2 635**	**5 589**	**8 866**	**11 211**	
EFFORTS TO BE IDENTIFIED - 2011-2012 BUDGET	—	—	—	**300**	**1 025**	
BUDGETARY BALANCE	**- 4 506**	**- 4 200**	**- 3 800**	**- 1 500**	**0**	

[1] Excluding the decrease in efforts to be identified.

Reminder about the plan to restore fiscal balance

In the 2010-2011 Budget, the government estimated the gap between revenue and expenditure that needs to be closed to restore fiscal balance by 2013-2014 at $12.3 billion. A total of $11.2 billion in measures were identified in the last two budgets, or over 90% of the total effort needed to restore fiscal balance. The government opted for measures that are the least harmful to the economy.

At the same time, compensatory measures reduce, even eliminate, the impact of these measures for low-income individuals and households, in particular through the solidarity tax credit.

Plan to restore fiscal balance 2010-2011 to 2013-2014 – 2010-2011 Budget
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Budgetary balance with program spending growth held at 4.8%	**– 6 709**	**– 8 800**	**– 10 390**	**– 12 262**
Spending efforts[1]	**1 152**	**2 864**	**4 694**	**6 649**
Revenue efforts				
Fight against tax evasion and tax avoidance	320	555	875	1 200
Indexing of non-indexed fees as of January 1, 2011	15	75	135	195
Rise in the rate of the QST by one percentage point as of January 1, 2011	400	1 215	1 215	1 265
Rise in the rate of the QST by one percentage point as of January 1, 2012	—	400	1 500	1 550
Efforts to control spending in public bodies	80	240	365	530
Temporary increase in the compensatory tax on financial institutions	112	115	120	124
Revision of the mining duties regime	32	39	57	60
Increase in the fuel tax rate of 1¢/L on April 1 of each year from 2010 to 2013	120	240	360	480
Fund to Finance Health and Social Services Institutions (FINESSS)				
– Introduction of a health contribution as of July 1, 2010	180	575	945	945
– Additional funding for health institutions	– 180	– 575	– 995	– 1 445
Solidarity tax credit[2]	—	—	– 260	– 260
Other measures	– 28	– 154	– 145	– 82
Subtotal for revenue efforts[3]	**1 051**	**2 725**	**4 172**	**4 562**
Total measures identified[4]	**2 203**	**5 589**	**8 866**	**11 211**
Balance of measures to be identified	—	311	324	1 051
Total measures	**2 203**	**5 900**	**9 190**	**12 262**
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 506**	**– 2 900**	**– 1 200**	**0**

[1] Excluding the additional contribution from FINESSS to hold growth in total health spending at 5.0%.
[2] The impact of $250 million in 2011-2012 is already included in the government's fiscal framework.
[3] Excluding program spending measures.
[4] Including program spending measures.

4.1 Continuation of the government effort

In the 2010-2011 Budget, the government undertook to assume $6.9 billion of the $11.2 billion in measures identified to restore fiscal balance by 2013-2014. The government effort breaks down as follows:

- $5.2 billion by controlling spending by departments and organizations;
- $530 million from spending efforts and increased productivity of public bodies such as commercial government corporations and the health and social services institutions;
- $1.2 billion from the fight against tax evasion and tax avoidance to ensure fairer funding of public services and make sure that everyone pays their fair share of taxes.

TABLE A.14

Breakdown of government effort between now and 2013-2014
(millions of dollars)

	2010-2011		2011-2012	2012-2013	2013-2014
	Planned	Achieved[1]			
Departments and organizations	1 152	1 527	2 864	4 694	6 649
Additional funding for health and social services institutions	– 180	– 180	– 575	– 995	– 1 445
Subtotal	**972**	**1 377**	**2 289**	**3 699**	**5 204**
Public bodies	80	107	240	365	530
Fight against tax evasion and tax avoidance	320	320	555	875	1 200
TOTAL	**1 372**	**1 804**	**3 084**	**4 939**	**6 934**

1 The following pages discuss the results of the government efforts in detail.

❑ Commitment upheld in 2010-2011

In 2010-2011, the government's share of the effort to respect the plan to restore fiscal balance was $1 372 million, broken down as follows:

- $972 million from spending control by departments and organizations;
- $80 million from spending efforts and the increased productivity of public bodies;
- $320 millions from the fight against tax evasion and tax avoidance.

Not only did the government meet its $1 372-million objective, but it surpassed it by $432 million. These additional efforts offset other adjustments to the government's financial framework.

Rigourous spending control in 2010-2011

Several spending reduction measures were announced in the 2010-2011 Budget, including in the Action Plan to Reduce and Control Expenditures 2010-2014 and in Bill 100 (S.Q. 2010, c. 20).

Last November, the government identified other measures for meeting the $5.2-billion objective set for 2013-2014. This objective will be gradually achieved by:

- reducing public administration costs by $2.5 billion;
- trimming program costs by $1.0 billion;
- achieving savings that will reach $1.7 billion through greater budgetary discipline.

The required adjustment for departments and organizations in 2010-2011 amounted to $1 152 million.

- Taking into account the additional contribution of $180 million from FINESSS, the effort required by departments and organizations falls to $972 million in 2010-2011.

Departments and organizations made a total effort of $1 377 million in 2010-2011, or $405 million more than the target. This was achieved primarily through:

- parameters limiting wage and salary growth, including by freezing payroll ($530 million);
- a 10% reduction in the administrative operating expenditures ($78 million);
- the limiting of budget growth to 2.4% ($759 million).

TABLE A.15

Spending efforts required of government departments and organizations

(millions of dollars)

	2010-2011	2013-2014
	Achieved	**Objective**
IDENTIFIED SPENDING MEASURES		
1. Reduction in public administration costs		
Parameters to limit wage and salary growth, including a freeze of total payroll	530	1 639
10% reduction in administrative operating expenses	78	322
Control over computer projects	—	200
Other measures	6	391
Subtotal – Reduction of public administration costs	**614**	**2 552**
2. Review of program parameters		
Business assistance	—	298
Reimbursed price of generic drugs	—	190
Consolidation of programs under a "one-stop" approach[1]	—	60
Other measures	4	444
Subtotal – Review of program parameters	**4**	**992**
3. Budget discipline		
Budget growth limited to 2.4% in 2010-2011 and a reduction in the funding envelope allocated to new programs as of 2011-2012	759	1 660
Subtotal – Budget discipline	**759**	**1 660**
TOTAL IDENTIFIED MEASURES	**1 377**	**5 204**

[1] In the following sectors: municipal, regional agencies, education, employment integration and French-language instruction for immigrants, and support for events.

- **An expected effort by public bodies**

The same as departments and organizations, the government stipulated that all public sector entities should also make efforts to reduce spending and increase productivity.

All public bodies, in particular commercial government corporations and health and social services institutions must make a total effort of $530 million by 2013-2014.

TABLE A.16

Spending cuts by public bodies
(millions of dollars)

	2010-2012		
	Planned	**Achieved**	**Objective for 2013-2014**
Spending cuts and productivity gains by commercial government corporations			
- Hydro-Québec	25.0	25.0	250.0
- Loto-Québec	5.0	11.3	50.0
- Société des alcools du Québec	5.0	15.3	50.0
Spending cuts and productivity gains by other public bodies			
- Special funds and non-budget-funded bodies	20.0	30.0	80.0
- Gradual reduction of health network deficits	25.0	25.0	100.0
TOTAL	**80.0**	**106.6**	**530.0**

Hydro-Québec, Loto-Québec and the Société des alcools du Québec will cut spending and increase productivity. Overall, these government corporations will surpass the objective of $35-million set for 2010-2011. Loto-Québec achieved more than double the requested effort, while the Société des alcools du Québec achieved more than triple the effort requested of it. Commercial government corporations achieved a total effort of $516 million in 2010-2011, or $16.6 million more than the target.

In the years thereafter, spending reduction measures and productivity gains will make it possible to achieve the objective of $350 million in 2013-2014 set in the budget. The measures put in place to achieve that objective will have no impact on the price of products sold or on consumer services.

As regards non-budget-funded bodies and special funds, savings of $30 million were achieved, thus exceeding the target of $20 million. Moreover, of the total amount of $80 million anticipated in 2013-2014, $71.2 million in measures has already been identified. Lastly, health and social services institutions will trim their deficits for 2010-2011 to meet the budgetary objectives set in the last budget.

The tax recovery target achieved

The plan to restore fiscal balance set an additional tax recovery target of $320 million in 2010-2011.

The additional resources granted under the plan to restore fiscal balance and the gradual implementation of intervention projects in at-risk sectors enabled Revenu Québec to recover 108.7% of the intermediate target set for January 31, 2011 as at that date.

Revenu Québec's overall tax audits enabled it to recover $2.24 billion as of January 31, equivalent to 115.7% of the target set for that date.

If this surplus continues to the end of the fiscal year, it will improve the government's financial results.

TABLE A.17

Results of the fight against tax evasion and tax avoidance — 2010-2011
(millions of dollars)

		At January 31, 2011			
	2010-2011 target	**Target**	**Result**	**Difference**	**% attained**
Plan to restore fiscal balance	320	225	245	20	108.7%
Other tax recovery initiatives	2 272	1 842	2 148	306	116.6%
TOTAL – ALL INITIATIVES	**2 592**	**2 067**	**2 393**	**326**	**115.7%**

A more-detailed report on the measures to fight tax evasion and tax avoidance is presented in Section 5.

Policy for the funding of public services

The indexing of user fees, an integral part of the policy for the funding of public services, contributes to the objectives of the plan to restore fiscal balance.

Amendments to the *Financial Administration Act* regarding the indexing of user fees were adopted in June 2010. The new provisions stipulate that all fees levied by government departments and organizations that are not already subject to indexing rule or annual fee-setting must be indexed on January 1 of each year. The rate of 1.27% for indexing as of January 1, 2011 is based on Québec's consumer price index. The applicable rate is released each year by the Ministère des Finances.

Details regarding the requirements of the policy for the funding of public services, the updating of its scope of application and the *Annual Report on the Funding of Public Services*, will be released in the coming weeks.

☐ The fiscal policy directions guiding the government's action

The plan to restore fiscal balance is being implemented as part of the fiscal policy directions aimed at sound management of public finances:

- maintaining a balanced budget;
- spending growth consistent with growth in GDP;
- a commitment towards future generations to reduce the debt;
- a competitive tax system that is essential to wealth creation;
- adequate funding of our public services;
- reinvestment in the modernization of our infrastructures.

■ Spending growth that is compatible with our ability to pay

The efforts to reduce spending growth will reduce program spending as a percentage of GDP to 19.4% in 2013-2014, which is similar to its pre-recession level.

Spending as a proportion of the economy will be brought to a level that:

— is more compatible with taxpayers' ability to pay;

— is more compatible with a competitive tax system.

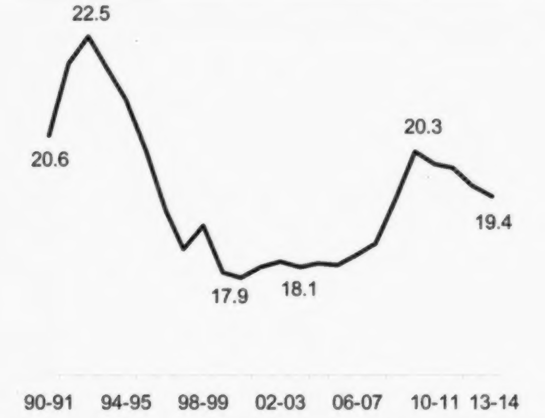
■ Sufficient revenue to ensure quality public services

When fiscal balance is restored, own-source revenue as a percentage of GDP will stand at 17%, which is similar to its pre-recession and past levels.

— The amount of tax revenue collected will enable adequate funding for public services while respecting taxpayers' ability to pay.

CHART A.16

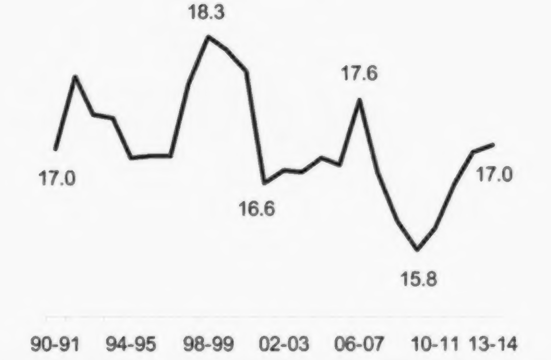
Program spending[1]
(as a percentage of GDP)



[1] Program spending according the structure of the 2010-2011 Budget.

CHART A.17

Own-source revenue[1]
(as a percentage of GDP)



[1] Own-source revenue according to the structure of the 2010-2011 Budget.

■ Continuation of efforts to reduce the debt load

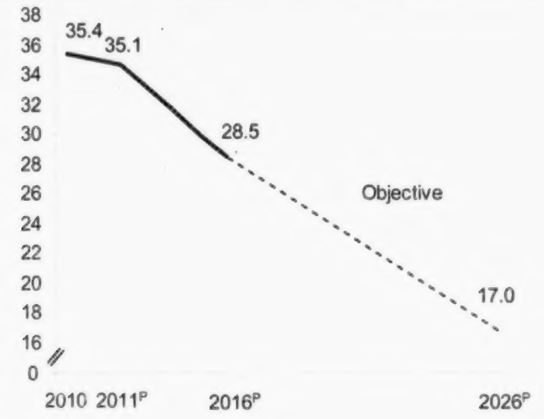
In accordance with the government's commitment to continue working to reduce the debt burden, the implementation of the plan to restore fiscal balance, combined with the increased payments to the Generations Fund, will reduce the impact of deficits on the size of the public debt.

Accordingly, the debt representing the government's accumulated deficits, as a percentage of GDP, will be reduced to 28.5% in 2015-2016, whereas the gross debt should stand at 53.6% of GDP for the same year.

— The debt reduction objectives for 2025-2026 are set at 17% of GDP for the debt representing accumulated deficits and at 45%of GDP for the gross debt.

CHART A.18

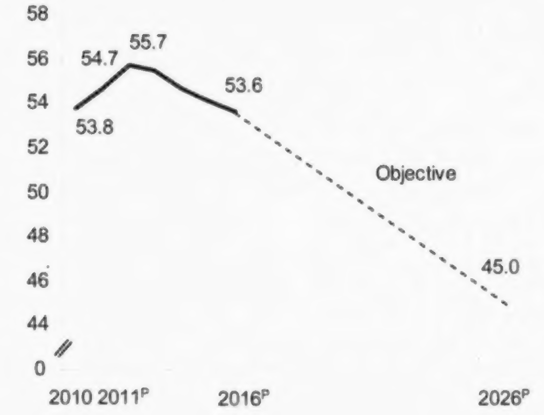
Debt representing accumulated deficits
(as at March 31, as a percentage of GDP)



P: Preliminary results for 2011, forecasts for 2012 to 2016 and projections for subsequent years.

CHART A.19

Gross debt[1]
(as at March 31, as a percentage of GDP)



P: Preliminary results for 2011, forecasts for 2012 to 2016 and projections for subsequent years.

Note: The gross debt takes into account the sums accumulated in the Generations Fund.

[1] The gross debt does not include advance borrowings.

5. COUNTER TAX EVASION AND UNREPORTED WORK

The Québec government, in the interests of fairness among citizens, considers countering tax evasion and unreported work as a priority.

To that end, the government is announcing a series of new initiatives:

- implementation of the Agence du revenu du Québec with a cost-benefit approach;
- intensification of measures to combat unreported work in the construction sector;
- targeted actions against organized networks of unreported work;
- concerted efforts to deter the illegal supply of daycare services;
- broadening of efforts to combat tobacco smuggling to neighbourhood networks;
- additional staff for the Autorité des marchés financiers to combat economic and financial crime.

Legislative or regulatory amendments will be proposed if needed to implement these new initiatives.

This section also sets out the results of the government action plan to curb tax evasion.

☐ New tax recovery targets

Tax recovery targets have been set for the Agence du revenu du Québec as part of the Plan to return to balanced budgets.

— In the 2011-2012 Budget, the government is raising this target to $1.4 billion in 2013-2014.

— Accordingly, the Agence du revenu du Québec's tax recovery targets will be raised by $150 million in 2011-2012 and by $200 million for subsequent years.

The total additional tax recovery targets amount to $705 million in 2011-2012, $1 075 million in 2012-2013 and $1 400 million in 2013-2014.

TABLE A.18

Additional tax recovery targets

(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
Plan to return to balanced budgets	**320**	**555**	**875**	**1 200**
Additional targets set for the Agence du revenu du Québec	—	150	200	200
TOTAL	**320**	**705**	**1 075**	**1 400**

5.1 Implementation of the Agence du revenu du Québec with a cost-benefit approach

As announced in the 2010-2011 Budget, the Ministère du Revenu will become the Agence du revenu du Québec on April 1, 2011.

— The Bill creating the Agence du revenu du Québec received assent on December 8, 2010.

The government is taking a cost-benefit approach in setting the funding of the Agence du revenu du Québec so that it has the necessary resources to achieve the targets that have been set.

— To that end, the Agence du revenu du Québec will have an additional 1 085 employees by 2013-2014.

☐ Accountability

The Agence du revenu du Québec's governance will be ensured by a board of directors and a president and CEO.

— The board of directors will be responsible for overseeing the administration of the Agence du revenu du Québec in regards to the management of financial, human, physical and informational resources, in accordance with the rules drawing on the *Act respecting the governance of state-owned enterprises* (R.S.Q., c. G-1.02).

— Most of the members of the board of directors will have to have experience acquired either as a senior public servant or senior executive of a government department, organization or enterprise.

The Agence du revenu du Québec will remain under the responsibility of the Minister of Revenue.

— The Minister of Revenue will be responsible for the Agence du revenu du Québec before the government and the National Assembly.

— The Minister of Revenue will continue to have final responsibility for the administration of legislation arising from fiscal policy and other mandates assigned by the government.

While remaining within the government's reporting entity, the Agence du revenu du Québec will enjoy the benefits of autonomy.

— Agency status will provide Revenu Québec[10] with more flexibility, in particular regarding informational resources, like government enterprises.

— A process will be implemented to assess the results of actions taken by the Agence du revenu du Québec.

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[10] "Revenu Québec" is used to designate the Ministère du Revenu and the Agence du revenu du Québec.

❑ Funding of the Agence du revenu du Québec

The funding of the Agence du revenu du Québec in 2011-2012 amounts to $810 million and will be drawn from tax revenues collected.

The first funding component of the Agence du revenu du Québec concerns current activities.

— Funding of current activities, on a comparable basis, will rise by 1.8% over 2010-2011 and will amount to $617.4 million.

The second component of its funding is designed to enable the Agence du Revenu du Québec to achieve the tax recovery targets and limit the increase in the government's bad debt expense.

— These objectives will be formalized in an agreement between the Agence du revenu du Québec and the Ministère des Finances.

In addition to this funding of $810 million, Revenu Québec will continue to have own-source revenue in exchange for its services.

TABLE A.19

Funding of the Agence du revenu du Québec – 2011-2012

(millions of dollars)

	2011-2012
2010-2011 budgetary appropriations	570.7
Expenses previously assumed by the Secrétariat du Conseil du trésor	35.8
2010-2011 budgetary appropriations on a comparable basis	**606.5**
Growth in expenses for current activities	10.9
% change	*1.8*
Financing of current activities	**617.4**
Funding previously assumed by the provision to increase any appropriation for initiatives concerning the revenues of the Ministère des Finances	45.6
Cost-benefit approach[1]	60.0
Funding before exceptional expenses	**723.0**
Non-recurring exceptional expenses[2]	87.0
FUNDING OF THE AGENCE DU REVENU DU QUÉBEC	**810.0**

[1] An additional $20 million compared to 2010-2011 as announced in the fall 2009 *Update on Québec's Economic and Financial Situation* and $40 million to achieve the new tax recovery targets ($150 million in 2010-2011 and $200 million for subsequent years) and to reduce the bad debts expense by $50 million (from $900 million to $850 million).

[2] $78 million for the Subsidy Program for Restaurateurs for installation of sales recording modules and $9 million to implement the solidarity tax credit.

Cost-benefit approach

In 2011-2012, an additional $60 million will be allocated to:

- achieve tax recovery targets;
- improve the performance of the Agence du revenu du Québec through the cost-benefit approach.

This amount is in addition to the $20 million allocated last year to Revenu Québec for additional tax recovery activities.

Accordingly, in 2011-2012, by investing $80 million in the Agence du revenu du Québec, the government expects a gain of $705 million, i.e. a return of $9 per dollar invested.

This funding will enable the Agence du revenu du Québec:

- to hire auditors, investigators and forensic accountants to improve tax control;
- hire tax collectors to ensure receipt of amounts owing;
- invest in its computer systems to update them and improve the online service offering.

Lastly, $87 million will be allocated to the Agence du revenu du Québec on account of non-recurring exceptional expenditures, i.e. $78 million for the Subsidy Program for Restaurateurs for installation of sales recording modules and $9 million for implementation of the solidarity tax credit.

Moreover, a technical amendment will be made to the *Act respecting the Agence du revenu du Québec* (S.Q., 2010 c. 31) to confirm that the fund for tax administration may fund any expenditure by the Agency in carrying out the mandates it receives from the government, including the payment of interest payable on a refund made by the Minister of Revenue pursuant to a tax law.

❑ Results of Revenu Québec's targeted projects for 2010-2011

As part of the plan to return to balanced budgets, Revenu Québec has implemented and intensified a number of projects to achieve the additional tax recovery target for 2010-2011 of $320 million.

— Since April 2010, Revenu Québec has hired 385 new employees.

As at December 31, 2010, Revenu Québec has thus recovered $245 million, i.e. 108.7% of the intermediate target of $225 million set for that date.

— This additional revenue stems in particular from assessments further to the increase in inspections, audits and investigations regarding corporate income taxes, personal income tax and other taxes.

— Revenu Québec expects to reach the target of $320 million set for 2010-2011.

TABLE A.20

Tax recovery by Revenu Québec in 2010-2011, under the Plan to return to balanced budgets
(millions of dollars)

Revenue sources	Examples of intervention	Results as at January 31, 2011
Taxation Act - Corporations	Audit of large companies	94.7
Taxation Act - Individuals	Audit of individuals in business	61.5
Act respecting the Québec sales tax and other laws concerning specific taxes	Audit of purchases and sales Efforts to curb the illicit tobacco trade	88.8
TOTAL		**245.0**

Source: Revenu Québec.

In addition, Revenu Québec has continued to deploy targeted efforts to curb tax evasion and tax avoidance, in particular:

- a tax control program that will require installation of 37 600 sales recording modules in 23 500 restaurants by November 2011:
  - as at March 7, 2011, 6 960 sales recording modules have been installed in 3 703 restaurants;
- a team specializing in detecting aggressive tax planning (ATP) schemes that has helped recover $99.1 million as at January 31, 2011, of which $49.1 million has been included in the Plan to return to balanced budgets;
  - the two main ATP schemes brought to light are desynchronization of fiscal periods and manipulation of the rule of the proportion of business done in Québec.

5.2 Intensification of measures to combat unreported work in the construction sector

For a number of years now, the government has intensified its measures to combat tax evasion and unreported work in the construction sector, in particular through the ACCES[11] construction committee.

— This committee brings together the Commission de la construction du Québec, the Director of Criminal and Penal Prosecutions, the Régie du bâtiment du Québec, Revenu Québec, the Ministère des Finances, the Commission de la santé et de la sécurité du travail, as well as the Canada Revenue Agency.

Revenu Québec and the Ministère des Finances have estimated tax losses in the construction sector at $1.46 billion for 2008.

☐ New measures to combat tax evasion and unreported work

Over the coming year, the government will be asking member organizations of ACCES construction to make additional efforts to counter tax evasion and unreported work.

Accordingly, ACCES construction partners undertake to:

— increase the number of businesses that must file a Ministère du Revenu tax compliance certificate to obtain a public contract.

— intensify concerted operations and information exchange actions;

— accentuate prevention with clients and increase sanctions under Bill R-20.[12]

To carry out these projects, the government is investing a further $4 million in 2011-2012.

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[11] Actions concertées pour contrer les économies souterraines (concerted action to counter the underground economy).

[12] *Act respecting Labour relations, vocational training and workforce management in the construction industry* (R.S.Q., c. R-20).

TABLEAU A.21

Measures to combat tax evasion and unreported work in construction 2011-2012 action plan

	Operational partners[1]
1. BROADENING OF THE REQUIREMENT OF THE MINISTÈRE DU REVENU CERTIFICATE (MRC) TO OBTAIN PUBLIC CONTRACTS	
Subcontracting on public worksites: – require the MRC of top-level subcontractors in the construction sector	SCT (coordination), MFQ, RQ
Government corporations and other government bodies not yet covered: – require the MRC of bidders on procurement, construction work and service contracts worth more than $25 000. In construction work contracts, the MRC will also be required of top-level subcontractors	SCT (coordination), MFQ, RQ
Municipalities and municipal bodies: – require the MRC of bidders on construction contracts worth more than $25 000, as well as top-level subcontractors	MFQ (coordination), RQ, MAMROT, municipalities
Private sector: – facilitate voluntary use of the MRC	RQ
2. CONCERTED ACTION AND INFORMATION EXCHANGE	
Double joint operations: – increase the number of joint operations on worksites from 150 to 300	CCQ (coordination), RQ, RBQ, CSST
Increase inspections, audits and investigations: – increase the number of inspections, audits and investigations to be made, in particular following operations on worksites	CCQ (coordination), RQ, RBQ, CSST
Act in the home renovation sector - Québec-municipalities collaboration: – carry out worksite inspection blitzes. Implementation of a pilot project, in particular in Montréal and Québec City	RQ (coordination), RBQ, CSST, municipalities
Improve information exchange: – improve information exchange and propose legislative amendments, if needed	RQ (coordination) CCQ, RBQ, CSST
3. PREVENTION AND SANCTIONS	
Increase prevention among major clients: – organize preventive meetings with major clients to propose measures reducing the likelihood of unreported work on worksites	CCQ (coordination), RQ, CSST, RBQ, SCT
Increase penal and administrative sanctions under Bill R-20	CCQ (coordination), DPCP

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[1] Commission de la construction du Québec (CCQ), Commission de la santé et de la sécurité du travail (CSST), Directeur des poursuites criminelles et pénales (DPCP), Ministère des Affaires municipales, des Régions et de l'Occupation du territoire (MAMROT), Ministère des Finances du Québec (MFQ), Régie du bâtiment du Québec (RBQ), Revenu Québec (RQ) and Secrétariat du Conseil du trésor (SCT).

- **Broadening of the requirement of the Ministère du Revenu certificate to obtain public contracts**

Since June 1, 2010, government departments and public bodies have required that suppliers that bid on a public contract worth $25 000 or more provide a Ministère du Revenu certificate (MRC).

— An MRC is a document that confirms that a business has filed the returns required under Québec's tax laws and has no outstanding accounts with the Minister of Revenue of Québec.

— This requirement applies to construction work, procurement and service contracts.

- **Broadening to subcontractors in the construction sector**

The government is announcing that general contractors that obtain a government construction work contract will have to require an MRC from their top-level subcontractors.

— This measure will come into force on September 1, 2011 and the application details will be announced this spring.

- **Broadening to government corporations and other government bodies not yet covered**

The MRC will henceforth be required of businesses bidding on procurement, construction work and service contracts worth $25 000 or more and awarded by government corporations and government bodies not yet covered by this requirement.

For their construction work contracts, these corporations and organizations will also have to require the MRC of top-level subcontractors.

— This measure will apply as of September 1, 2011.

- **Broadening to municipalities and municipal bodies**

Moreover, the MRC will be broadened to municipalities and municipal bodies for construction work contracts worth $25 000 or more. The requirement that top-level subcontractors obtain an MRC will also apply to these contracts.

— This measure will apply as of January 1, 2012.

- **Promote the use of the MRC in the private sector**

Lastly, private-sector businesses and organizations have shown interest in the MRC to help them choose business partners. To that effect, Revenu Québec will take the necessary steps to facilitate use of this certificate by those that wish to as of January 1, 2012.

Concerted action and information exchange

- **Intensification of inspections, audits and investigations**

Under ACCES construction, joint worksite operations are carried out by three or more partners. The goal of these operations is to see that the laws governing the construction sector are observed by detecting situations of non-compliance.

— The partners will double the number of joint operations in 2011-2012. They will rise from 150 to 300.

— Exchange of expertise will be bolstered by sharing work methods and intervention strategies once a scheme is detected.

In addition, all partners will intensify inspections, audits and investigations.

ACCES construction cases likely to feature situations such as corruption, collusion, money laundering or false invoicing will be turned over to the new Unité permanente anticorruption.

- **Home renovation: Québec-municipalities collaboration**

To deal more effectively with tax evasion and unreported work in the home renovation sector, the government will explore new methods of intervention in cooperation with the municipalities.

Beginning this spring, ACCES construction will initiate a pilot project to increase operations on residential worksites, particularly in Montréal and Québec City.

— Inspectors from Revenu Québec, the Régie du bâtiment du Québec, the Commission de la santé et de la sécurité du travail and the municipalities will carry out joint operations.

If the pilot project produces conclusive results, it could be extended to other municipalities.

Optimization of operations through information exchange

Over the coming year, the Commission de la construction du Québec, the Régie du bâtiment du Québec and the Commission de la santé et de la sécurité du travail will improve how they exchange information to boost the efficiency of their actions, particularly following operations on worksites.

- Legislative or regulatory amendments could be proposed to that end.

Revenu Québec, for its part:

- will propose legislative amendments to enable the Régie du bâtiment du Québec to have easier access to evidence concerning convictions for tax violations relating to the construction field;
- will improve its information gathering with the Commission de la construction du Québec and the Régie du bâtiment du Québec;
- will propose, in cooperation with the Commission de la santé et de la sécurité du travail, the legislative amendments needed to have access to the information held by the Commission.

These information exchanges will be framed by mechanisms ensuring the protection of personal and tax information.

Prevention and sanctions

Prevention among major clients

ACCES construction will hold more meetings with major clients to propose prevention measures consisting in particular in:

- introducing contractual clauses reducing the likelihood of unreported work;
- providing information on potential unreported work and false invoicing schemes;
- exercising control on the subcontracting chain.

This approach seeks to prevent and detect irregularities on worksites, if any.

- **Penal and administrative sanctions**

To deter unreported work on construction sites, the government will toughen penal and administrative sanctions.

Accordingly, the amount of fines for certain violations of Bill R-20 governing the construction sector will be raised as shown in the following table.

TABLE A.22

Revised amounts of fines - Bill R-20
(dollars)

Infraction	Existing fines	Revised fines
Unreported hours and non-registration with the CCQ		
- Individual	177 to 862	400 to 1 600
- Any other person or individual	659 to 2 839	1 000 to 5 000
Illegal strike, lock-out or work slowdown		
- Other than employer, association or representative	51 to 177	400 to 1 600
Denial of the means of hiring or of freedom of choice		
- Individual	177 to 862	700 to 2 000
- Any other person or individual	659 to 2 839	2 000 to 5 000

Source: Commission de la construction du Québec.

For claims, the rate of monetary administrative sanctions for repeated omissions to report hours worked in accordance with Bill R-20 will rise from 20% to 40%.

In addition, it is already stipulated that worksite delegates and union representatives will be stripped of their functions for a specified period if they are found guilty of certain infractions under the Criminal Code. Other infractions leading to such disqualification will be added to Bill R-20, in particular participation in a crime.

Lastly, for administrative sanctions, the regulations of Bill R-20 dealing with restrictions on contractor licenses for the purposes of a public contract will be amended to adapt them to the revisions to the *Building Act*. Accordingly, where a contractor commits certain violations of Bill R-20, he may be issued a restricted license by the Régie du bâtiment du Québec.

☐ Results of efforts to combat unreported work in the construction sector

In the 2010-2011 Budget, the government announced additional funding for Revenu Québec, the Commission de la construction du Québec and the Régie du bâtiment du Québec to combat unreported work in the construction sector.

Accordingly, these government departments and organizations have set up teams dedicated to new projects. The following table shows the results, as at January 31, 2011, of the actions announced in the March 2010 budget.

TABLE A.23

Measures announced in March 2010 – Construction Results as at January 31, 2011

Department/Organization	Projects	Additional resources	Results
Revenu Québec	Sustained presence on 50 major worksites[1]	50 (37 in place)	Sustained surveillance of 36 worksites
	Ministère du Revenu certificate[2]		11 120 certificates have been issued to 5 821 businesses 870 businesses have put their tax situation in order Additional tax revenue of $12.7 million
	Special misappropriation and corruption squad	10 (hiring underway)	This team will incorporate the Unité permanente anticorruption
	Audit of the tax credit for home improvement and renovation[1]	10 (full team)	4 182 files processed $5.7 million in taxes recovered
Commission de la construction du Québec	Tactical squad	17 (15 in place)	139 investigations targeting 129 businesses completed More than 100 000 hours and $2.6 million have been claimed
	Construction integrity service	7 (full team)	Prevention meetings have been held with representatives of major clients in the health sector in particular
	Complaints and denunciations service	6 (full team)	500 alerts received 95 cases under investigation
Régie du bâtiment du Québec	Contractor integrity	13 (full team)	261 investigations carried out 14 964 systematic checks of criminal records sent to the Sûreté du Québec Five licenses cancelled in relation to criminal acts Nine licenses suspended in relation to tax violations 38 restricted licenses issued for the purposes of obtaining a public contract

[1] Data as of February 28, 2011.

[2] The results show stem from all of the applications for a Ministère du Revenu certificate, not just those of suppliers in the construction sector.

Sources: Revenu Québec, Commission de la construction du Québec and Régie du bâtiment du Québec. Compilation by the Ministère des Finances du Québec.

Since 2005-2006, measures to combat tax evasion and unreported work in the construction sector have:

- enabled the recovery of more than $1.2 billion;
- led to 52 555 convictions for unreported work under Bill R-20 and the *Building Act*.

TABLE A.24

Results of measures to combat unreported work - Construction

(millions of dollars)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Tax recovery							
Tax assessments	123.0	161.6	215.8	214.2	218.8	290.0	**1 223.4**
Fines	0.3	0.4	1.1	2.1	4.7	5.0	**13.6**
Total	**123.3**	**162.0**	**216.9**	**216.3**	**223.5**	**295.0**	**1 237.0**
Penal component[1]							
Infraction reports (units)	12 172	15 517	10 426	8 440	11 484	8 915	**66 954**
Convictions (units)	9 113	12 041	7 956	6 777	9 268	7 400	**52 555**
Fines	4.2	5.6	3.5	3.1	4.3	3.3	**24.0**

[1] The results shown under the penal component refer to infractions relating solely to unreported work under Bill R-20 and the *Building Act* (R.S.Q., c. B-1.1).

Sources: Commission de la construction du Québec, Revenu Québec and Régie du bâtiment du Québec. Compilation by the Ministère des Finances du Québec.

5.3 Targeted actions against organized networks of unreported work

The phenomenon of networks of unreported work is cause for concern. These networks sometimes organize themselves as employment agencies. This facade enables them to avoid fulfilling their employer responsibilities regarding source withholdings and contributions for social programs.

The leaders of these networks exploit workers who know little of their rights: they offer remuneration beneath the minimum wage, fail to comply with work standards and deprive workers of social protection in the event of illness or job loss.

In 2011-2012, the government will invest $2 million to more effectively counter these organized unreported work networks. Accordingly, the Commission des normes du travail, Emploi-Québec and Revenu Québec may carry out joint actions.

- The partners will be mandated to detect illegal networks, improve oversight of the industry and encourage workers to enter the legal labour market.
- Revenu Québec will be specifically mandated to make tax recoveries from agencies found to be at fault.

5.4 Concerted efforts to deter the illegal supply of childcare services

For almost five years, the *Educational Childcare Act* (R.S.Q., c. S-4.1.1) has fostered quality educational childcare services supplied by childcare providers covered by the Act to ensure the health, safety, development, well-being and equal opportunity of the children who receive these services, in particular those with special needs or who live in challenging socio-economic circumstances.

Last December, the National Assembly passed legislation further tightening oversight of educational childcare services. One of the objectives of this legislation is to deter anyone from offering or supplying childcare services in violation of the *Educational Childcare Act* and, more specifically, supplying such services without a licence or authorization to more than six children.

To do so, fines have been doubled and now range between $1 000 to $10 000. In addition, in situations where the health and safety of children may be compromised, an order may be issued to prohibit a person from continuing their operations.

However, the fact that persons who offer an unlicensed or unauthorized childcare service can issue tax receipts or tax slips to parents may compromise the efforts made by the Ministère de la Famille et des Aînés to counter this supply of services.

The persons offering such services have no problem filling every available space, at the regular rate, since parents can also receive a refundable tax credit that offsets, if their family income does not exceed $126 175, at least 57% of childcare expenses paid.

Accordingly, the Ministère des Finances, together with Revenu Québec and the Ministère de la Famille et des Aînés, will examine measures that may be taken to ensure that persons who offer childcare services in violation of the law derive no benefit from the refundable tax credit for childcare expenses to which the parents are entitled.

5.5 Broadening of efforts to combat tobacco smuggling to neighbourhood networks

The government, through the ACCES[13] tobacco committee, is taking vigorous steps to combat the illicit tobacco trade.

— ACCES tobacco brings together Revenu Québec, the Ministère de la Santé et des Services sociaux, the Ministère de la Sécurité publique, the Director of Criminal and Penal Prosecutions, the Ministère des Finances, police forces as well as the Canada Revenue Agency, and the Canada Border Services Agency.

The efforts to curb the illicit tobacco trade are producing excellent results. After five consecutive years of declining revenue from the specific tax on tobacco products, revenue has risen for the second year in a row.

TABLE A.25

Revenue from the specific tax on tobacco products
(millions of dollars)

Payments	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Consolidated Revenue Fund	901	752	678	647	594	664	739
Special funds[1]	64	66	79	100	60	90	109
TOTAL REVENUE	**965**	**818**	**757**	**747**	**654**	**754**	**848**

1 A portion of the revenue from the specific tax on tobacco products is used to finance various special funds. In 2010-2011, these funds received total financing of $109 million: Fund for the Development of Sport and Physical Activity ($49 million), Fonds du patrimoine culturel québécois ($10 million), Fund for the promotion of a healthy lifestyle ($20 million), fund for the development of young children ($15 million) and caregiver support fund ($15 million).

Despite the observed increase in revenue, the scope of the illicit tobacco trade and its consequences continue to give cause for concern.

— Access to low-cost tobacco products compromises efforts to combat smoking.

— The illicit tobacco trade engenders unfair competition against legal merchants and funds criminal organizations.

The Ministère des Finances estimates the tax losses associated with tobacco smuggling at $225 million for 2010, i.e. roughly 20% of the market.

— The estimated losses for 2008 were $300 million, representing about 30% of the market at that time.

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[13] Actions concertées pour contrer les économies souterraines (concerted action to counter the underground economy).

☐ New measures to combat tobacco smuggling

Up to now, the government's efforts have been focused on slowing the supply of major tobacco smuggling networks.

The government is taking another step in combating tobacco smuggling by allocating $3 million to police forces to support their operations against neighbourhood smuggling networks. Accordingly, seven new teams will join the three already in place.

In addition, the government will amend the *Tobacco Tax Act* (R.S.Q., c. I-2) to incorporate a measure to allow municipalities to initiate penal prosecutions in municipal courts and to keep the amount of fines and costs collected, not only for infractions targeting consumers, but also for those targeting retailers.

☐ Results of efforts to combat smuggling of tobacco

Following the announcement in the 2010-2011 Budget, police officers have been added in the Valleyfield region and elsewhere in Montérégie. The government's strategy was designed to cut the supply of raw materials intended for clandestine factories and to intercept contraband products from the United States.

— Six mixed regional squads are now deployed throughout Québec.

As well, three additional teams dedicated to combating smuggling in the neighbourhood have been added to the forces already in place.

— In 2011-2012, all these teams will be fully operational.

TABLE A.26

Measures announced in March 2010 – Tobacco
Results as at January 31, 2011

Department/Organization	Projects	Additional staff	Results
Sûreté du Québec and municipal police forces	Addition of a mixed regional squad in Montérégie	6 (3 in place)	In progress
	Mixed regional investigation squad in Valleyfield	Two police officers added to the four already in place	60 tons of loose tobacco seized (increase of 100% compared to 2009-2010)
	Teams dedicated to combating neighbourhood smuggling	6 (full teams)	38 cases leading to accusations against 44 individuals Market value of seized tobacco in excess of $120 000 More than $100 000 in fines levied

Source: Ministère de la Sécurité publique.

Since 2005-2006, ACCES tobacco operations have contributed to the issuing of $182.2 million in tax assessments and $43.0 million in fines. The value of seizures amounts to $81.9 million.

TABLE A.27

Results of efforts to combat tobacco smuggling

(millions of dollars)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Value of seizures	8.7	8.2	11.3	15.2	18.5	20.0	**81.9**
Tax assessments	9.3	45.1	46.7	43.9	17.2	20.0	**182.2**
Fines	0.9	1.7	12.1	7.1	10.2	11.0	**43.0**
TOTAL	**18.9**	**55.0**	**70.1**	**66.2**	**45.9**	**51.0**	**307.1**

Sources: Revenu Québec and Ministère de la Sécurité publique. Compilation by the Ministère des Finances du Québec.

The strategy of inspecting points of sale and intervening with sellers was changed in 2007-2008.

This new strategy has helped to detect more infractions, with the rate of detected infractions rising from 4.9% in 2006-2007 to 19.9% in 2009-2010.

— This rate should be 21% for 2010-2011.

TABLE A.28

Results of inspections under ACCES tobacco

(units)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Inspections	4 354	7 835	3 489	3 807	4 552	4 500	**28 537**
Infractions detected	410	387	635	572	907	945	**3 856**
Rate of detected infractions	9.4	4.9	18.2	15.0	19.9	21.0	**13.5**

Sources: Revenu Québec and Ministère de la Sécurité publique. Compilation by the Ministère des Finances du Québec.

5.6 Additional resources for the Autorité des marchés financiers

The government is focusing its efforts to combat economic and financial crime within the ACCEF[14] committee.

— This committee brings together Revenu Québec, the Ministère de la Sécurité publique, the Sûreté du Québec, the Service de police de la Ville de Montréal, the Autorité des marchés financiers, the Director of Criminal and Penal Prosecutions and the Ministère des Finances du Québec.

☐ New measures to combat economic and financial crime

In recent years, the Autorité des marchés financiers (AMF) has participated in managing a number of complex cases. In particular, it worked on the agreement concerning the restructuring of asset-backed commercial paper (ABCP) under the Montréal accord as well as on maintaining derivatives trading on the Montréal Exchange.

The AMF has also worked to tighten regulations against financial fraud and continues to handle major cases involving insider trading, market manipulation and scams whose purpose is the sale of financial products.

In 2010, legislative amendments made to the statutes administered by the AMF gave rise to the issuing of $11.4 million in fines, penalties and sanctions. In addition, 2 069 charges were filed in 2010, more than double the 855 filed in 2009.

To increase detection and prosecution of fraud in 2011, the government is authorizing additional spending of $3.7 million by the Autorité des marchés financiers to hire staff. With these additional resources, the AMF ensures that its regulatory and oversight framework comply with the highest international standards.

With this measure funded by the AMF, the government is hoping to bolster protection of savers.

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[14] Actions concertées pour contrer les crimes économiques et financiers (concerted action against economic and financial crime).

☐ Results of measures to combat economic and financial crime

In 2010-2011, the government intensified its efforts against swindlers.

The addition of substantial resources to combat economic and financial crime has produced good results. The efforts will be maintained in 2011-2012.

TABLE A.29

Measures announced in March 2010 – Economic and financial crime
Results as at January 31, 2011

Department/Organization	Projects	Additional staff	Results
Sûreté du Québec	Establishment of a team to combat financial fraud	6 (full team)	Two projects have been completed since the team was established: CONVEXE (51 investors swindled by a Ponzi scheme with a value of roughly $2.5 million. Two arrests were made.) DÉCUPLE (seven investors swindled in a Ponzi scheme with a value of $437 000
Service de police de la Ville de Montréal	Addition of police officers to combat laundering of the proceeds of crime	2 (full team)	Establishment of a direct link with the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) 50% increase in disclosures by financial institutions and FINTRAC regarding transactions possibly recycling proceeds of crime
Autorité des marchés financiers	Combat cybercrime: quickly shut down illegal solicitation activities carried out over the internet	3 (full team)	46 cybercrime cases open including: – 28 that have given rise to alerts or warnings – 14 under investigation – four that will give rise to prosecutions
Ministère des Finances	Legal oversight of money-services businesses	None	Bill 128 on money-services businesses (S.Q., 2010, c. 40) assented to December 10, 2010

Sources: Ministère de la Sécurité publique and Autorité des marchés financiers. Compilation by the Ministère des Finances du Québec.

The work done by ACCEF requires sustained effort over a long period, in particular to train specialized investigators, detect fraudulent schemes and gather evidence.

In addition, substantial preparation work is needed for trials given the burden of proof and the complexity of the cases.

Two ACCEF success stories

DORADE II

This was an investigation initiated in January 2008 of a criminal organization involved in a false invoice scheme in the construction sector.

The individuals involved were alleged to have set up offshore shell companies to avoid paying taxes relating to the lending activities of their financial corporation.

The investigation led to eight searches and three arrests in May 2010.

Orders to freeze $55 million were obtained in the course of this project. This is the largest sum ever frozen in Canada.

A freeze order is one of two procedures to prevent property from disappearing before being confiscated by a court.

ÉTAU

The operation was carried out by the Sûreté du Québec and Revenu Québec. It was designed to end the activities of a false invoicing network operating in many activity sectors, including construction.

The Sûreté du Québec made 13 searches and 14 suspects were detained.

Revenu Québec made 22 searches, seized many assets belonging to persons associated with the network and registered legal movable and immovable hypothecs.

- Revenu Québec could issue up to $15 million in assessments once the operation is completed.

5.7 Results of projects funded by the provision of the Ministère des Finances

In recent years, the government, through Revenu Québec and the ACCES committees, has deployed significant efforts to secure the integrity of the tax system. Some of these efforts are funded by the provision to increase any appropriation for initiatives concerning the revenues (provision) of the Ministère des Finances.

In 2010-2011, this provision amounted to $94.6 million. This amount was used to fund projects of government departments and organizations involved in combating tax evasion and unreported work.

Since 2005-2006, the average annual yield, per dollar invested, of these projects is $11.20.

— The yield of projects funded by the provision includes direct yields, i.e. tax recovery revenues, and indirect yields, i.e. an increase in self-assessment further to operations.

TABLE A.30

Estimated yield of projects to combat tax evasion funded by the provision
(millions of dollars)

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Projects						
- ACCES construction	317.1	336.0	334.5	336.0	375.0	424.9
- Revenu Québec - Specific projects	331.6	83.1	103.1	148.8	185.0	215.1
- ACCES alcohol	72.0	66.0	66.0	66.0	60.0	60.0
- ACCES tobacco	26.0	32.0	35.0	40.0	50.0	75.0
- ACCEF	—	4.0	20.3	41.9	42.7	57.7
- Debt offset	67.2	21.0	—	—	—	—
TOTAL YIELD OF PROJECTS	**813.9**	**542.1**	**558.9**	**632.7**	**712.7**	**832.7**
Amount allocated by the provision	69.1	45.1	49.6	55.3	61.7	91.6
YIELD PER DOLLAR INVESTED ($)	**11.79**	**12.03**	**11.28**	**11.44**	**11.55**	**9.09**

Note: Figures may not add up to the totals shown because of rounding-off.

In 2011-2012, the amount of the provision will be adjusted by $42.3 million to take the following into account:

- reduction of $45.6 since Revenu Québec will henceforth fund its targeted tax recovery projects from its operating budget;
- reduction of $1.7 million further to the application of the government's spending reduction plan stipulated by the *Balanced Budget Act*;
- addition of $5 million further to the announcement in the 2010-2011 Budget.

In the 2011-2012 Budget, an additional $9 million will be allocated to the Ministère des Finances du Québec and entered under the provision to fund new tax recovery initiatives. The provision will thus amount to $61.3 million.

APPENDIX 1: FIVE-YEAR ENVELOPES OF INFRASTRUCTURE INVESTMENTS

Beginning in 2013-2014, the government will gradually reduce the overall envelope for infrastructure. This gradual reduction will make it possible to:

— complete the major projects that are in progress;

— meet the objectives of the *Act to promote the maintenance and renewal of public infrastructures*, i.e. to finish offsetting the maintenance deficit by 2022-2023 and continue to invest in asset maintenance.

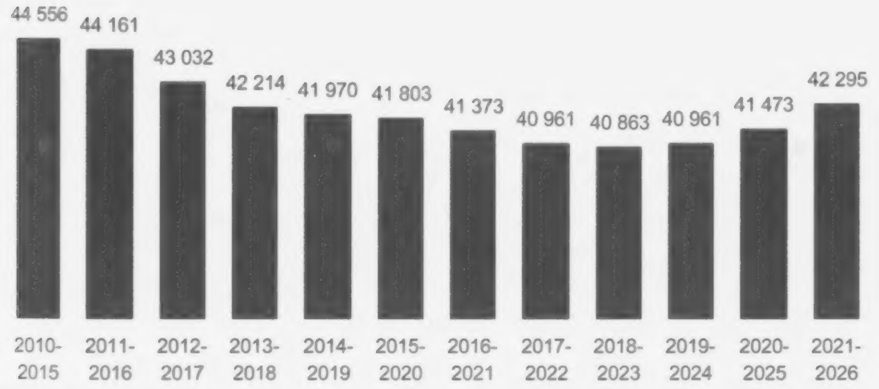
The targets for the five-year investment plans are shown for the next twelve years.

— Until the 2018-2023, the five-year envelopes will decrease by an average of $462 million per five-year period.

— Thereafter, the five-year envelopes should increase to maintain the quality of public infrastructures and the value of the stock of capital in the economy.

CHART A.20

Five-year envelopes of infrastructure investments
(millions of dollars)



APPENDIX 2: FINANCIAL FRAMEWORK EXCLUDING THE REVENUE MEASURES STIPULATED IN THE PLAN TO RETURN TO FISCAL BALANCE

TABLE A.31

Five-year financial framework of the 2011-2012 Budget
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
BUDGETARY TRANSACTIONS						
Budgetary revenue						
Own-source revenue	44 130	45 937	47 751	49 867	51 563	53 281
% change		*4.1*	*3.9*	*4.4*	*3.4*	*3.3*
Federal transfers[1]	15 161	15 451	15 039	15 204	15 736	16 313
% change		*1.9*	*−2.7*	*1.1*	*3.5*	*3.7*
Total budgetary revenue	**59 291**	**61 388**	**62 790**	**65 071**	**67 299**	**69 594**
% change		***3.5***	***2.3***	***3.6***	***3.4***	***3.4***
Budgetary expenditure						
Program spending	− 58 389	− 59 819	− 61 284	− 62 113	− 63 325	− 65 510
% change		*2.4*	*2.4*	*1.4*	*2.0*	*3.5*
Debt service	− 6 117	− 6 944	− 7 803	− 8 656	− 9 343	− 9 342
% change		*13.5*	*12.4*	*10.9*	*7.9*	*0.0*
Total budgetary expenditure	**− 64 506**	**− 66 763**	**− 69 087**	**− 70 769**	**− 72 668**	**− 74 852**
% change		***3.5***	***3.5***	***2.4***	***2.7***	***3.0***
Net results of consolidated entities	**2 275**	**1 156**	**1 012**	**973**	**890**	**952**
Contingency reserve	—	− 300	− 300	− 200		
Measures identified in the 2009-2010 and 2010-2011 budgets	—	1 051	2 725	4 172	4 562	4 829
Measures to be identified	—	—	—	300	1 025	1 025
SURPLUS (DEFICIT)	**− 2 940**	**− 3 468**	**− 2 860**	**− 453**	**1 108**	**1 548**
BALANCED BUDGET ACT						
Payments to the Generations Fund	− 725	− 732	− 940	− 1 047	− 1 108	− 1 548
Stabilization reserve fund	433					
Accounting changes	58					
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**− 3 174**	**− 4 200**	**− 3 800**	**− 1 500**	**0**	**0**

[1] The fiscal arrangements legislation stipulating the formulas for establishing equalization payments, the Canada Health Transfer and the Canada Social Transfer is in force until 2013-2014. The projected transfers as of 2014-2015 were determined on the basis of the current formulas.

Section B

The Québec Economy: Recent Developments and Outlook for 2011 and 2012

HIGHLIGHTS **B.3**

INTRODUCTION **B.5**

1. **INTERNATIONAL ECONOMIC CONTEXT** **B.7**
    - 1.1 Global growth continues to be sustained B.7
    - 1.2 Growth outlook by country B.14
    - 1.3 Risks related to global economic growth B.16
2. **THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS** **B.19**
    - 2.1 The situation in the United States B.20
    - 2.2 The situation in Canada B.26
3. **THE ECONOMIC SITUATION IN QUÉBEC** **B.33**
    - 3.1 The Québec economy remains on a steady growth path B.33
    - 3.2 Good labour market performance in 2011 .... B.36
    - 3.3 Contribution of households to economic growth B.38
    - 3.4 Non-residential investment B.42
    - 3.5 Toward an export recovery in 2011 .... B.44
    - 3.6 Change in nominal GDP B.51
    - 3.7 Comparison with private sector forecasts B.52
    - 3.8 Five-year economic outlook B.54
4. **QUÉBEC'S PUBLIC CAPITAL STOCK** **B.57**
    - 4.1 A critical factor for in Québec's prosperity B.57
    - 4.2 Québec's public capital stock B.59
    - 4.3 Trends in public capital stock in Québec and Canada B.62
    - 4.4 Impacts of public investments on the economy B.65

HIGHLIGHTS

❑ Global economic recovery continues to advance

After rebounding 4.8% in 2010 following the recession, the global economy should grow at a pace closer to historical rates in 2011 and 2012, although regional differences will remain.

— **Emerging economies** will continue to expand strongly and drive global economic activity. Due to strong domestic demand and growth in world trade, these economies will expand 6.2% in 2011 and 6.6% in 2012.

— **The euro area** will see moderate growth of 1.3% in 2011 and 1.6% in 2012. The substantial deficits of some European countries and the resulting austerity measures, as well as a persistently high unemployment rate, will weigh on growth forecasts for the euro area.

— In the **United States**, the economy will expand as monetary and fiscal policies continue to spur economic activity. Growth rates of 2.9% in 2011 and 3.0% in 2012 are forecast.

— In **Canada**, real gross domestic product (GDP) is expected to rise by 2.4% in 2011 and 2.8% in 2012. Domestic demand remains healthy, but the strong Canadian dollar will curtail export growth.

Despite the severity of the 2009 recession, economic activity in Québec and Canada contracted less than in other advanced economies. It recovered quickly in 2010 and grew at a steady pace.

— Between the July 2009 trough in Canadian employment and January 2011, 125 900 jobs were created in Québec and 467 300 in Canada, more than the number of jobs lost during the recession. This performance stands out among advanced economies.

TABLE B.1

Economic growth outlook
(percentage change)

	Real GDP			Nominal GDP		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
Québec	3.0	2.0	2.2	4.4	3.9	4.4
Canada	3.1	2.4	2.8	6.2	4.8	5.2
United States	2.8	2.9	3.0	3.8	4.0	4.3

Sources: Institut de la statistique du Québec, Statistics Canada, IHS Global Insight and Ministère des Finances du Québec.

☐ The Québec economy remains on a steady growth path

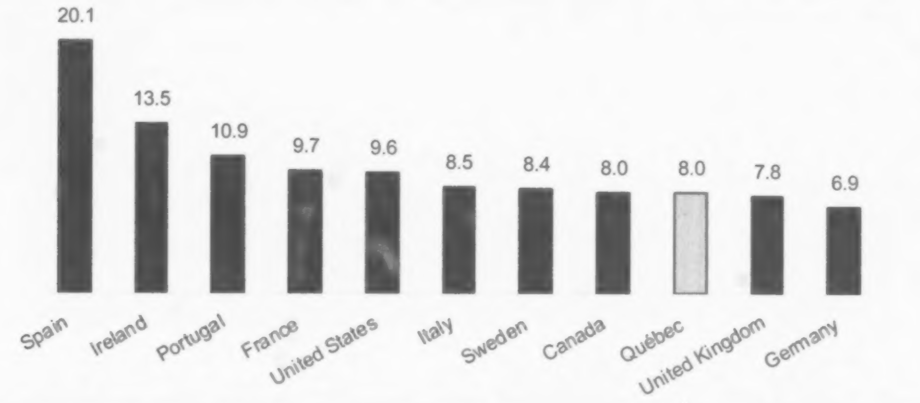
Like that of its trading partners, Québec's economic growth rate should hover near its historical potential. After rebounding 3.0% in 2010, **real GDP** is expected to rise by 2.0% in 2011 and 2.2% in 2012.

Fuelled by renewed consumer confidence, the economy will remain dynamic thanks to an unemployment rate that compares favourably with the other advanced economies. Growth will also be spurred by government and business investment.

Robust domestic demand will thus continue to support economic growth in 2011 and 2012, when the population of Québec will pass the 8 million mark. Furthermore, even with the strong Canadian dollar, Québec's exports to the rest of the world, particularly the United States, should gradually pick up.

CHART B.1

Unemployment rates by country[1] - 2010
(per cent)



[1] Unemployment rates harmonized by the OECD, except for Canada, Québec and the United Kingdom.
Sources: OECD, IHS Global Insight and Statistics Canada.

Demographic changes will hamper Québec's economic growth in the medium term. Sustaining steady growth will require bold policies regarding the birth rate, immigration, labour market participation and productivity.

INTRODUCTION

This section of the Budget Plan presents the economic forecasts underpinning the 2011-2012 Budget. It is divided into four sections.

Section 1 explains the **international economic context**. Supported by government stimulus measures in 2010, global economic growth will be driven to a greater extent by households and businesses starting in 2011. Emerging economies will remain a major engine of global growth.

Section 2 describes **the economic situation of Québec's main trading partners**, in particular the **United States and Canada**. The United States will maintain its expansionary monetary and fiscal policies in 2011, fuelling growth in consumption and private investment.

Canada's economic growth will be supported primarily by domestic demand. However, Canada will have to contend with a relative weakness in exports which, even though they are growing, will be dragged by the strong Canadian dollar.

Section 3 presents the **economic situation in Québec**. After rapidly returning to its pre-recession level, Québec's economic activity will be buoyed in 2011 by domestic demand resulting from the labour market performance, continued public infrastructure investment and the upturn in business investment. Québec exports, as well as Canada's, will be slowed by the high Canadian dollar.

Section 4 provides an overview of past and projected trends in Québec's **public capital stock** and discusses their impacts on economic growth.

1. INTERNATIONAL ECONOMIC CONTEXT

This section describes the international economic context. The global economy recovered quickly in 2010, growing at a strong pace of 4.8%, spurred by economic growth of over 7.0% among emerging economies and nearly 3.0% among advanced economies. The recovery resulted in a surge in world trade and industrial production. Moreover, low borrowing rates fostered an increase in consumer spending and business investment.

1.1 Global growth continues to be sustained

After rebounding in 2010, the economy is expected to continue growing at a steady pace, settling at 4.0% in 2011 and 4.5% in 2012.

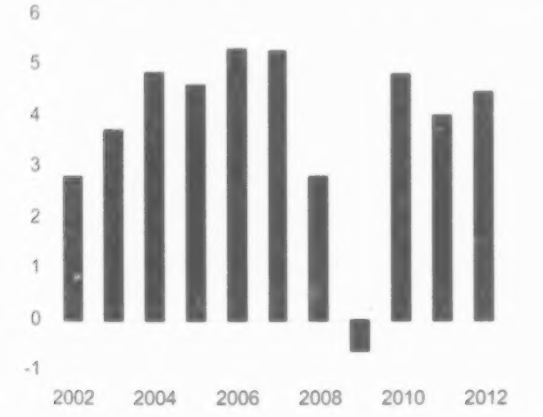
— Emerging economies will continue to drive global economic expansion.

— In the United States, economic activity will be fuelled by monetary stimulus programs as well as the package of fiscal measures adopted by the US Congress at the end of 2010.

— The other advanced economies will grow at a more moderate pace. The euro area and United Kingdom economies will be constrained by the implementation of austerity plans to trim deficits.

CHART B.2

Global economic growth
(real GDP, percentage change, data based on purchasing power parity)

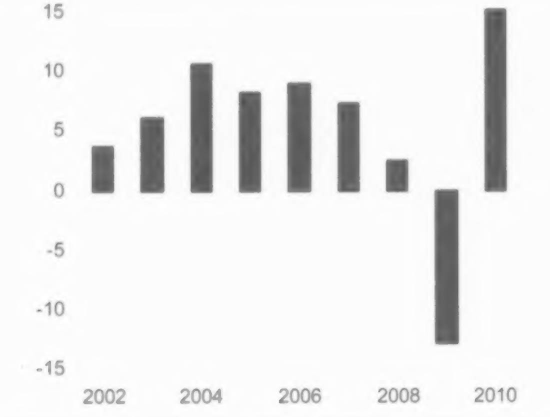


Sources: IHS Global Insight and International Monetary Fund.

CHART B.3

World trade

(percentage change, in real terms)



Sources: CPB Netherlands Bureau for Economic Policy Analysis and Ministère des Finances du Québec.

☐ Growth in emerging economies to remain robust

Emerging economies will remain a major engine of the global economy in 2011 and 2012. They will continue to grow at a vigorous pace, despite a slight deceleration compared with 2010, mainly due to the monetary tightening measures taken by certain economies to curb inflationary pressures.

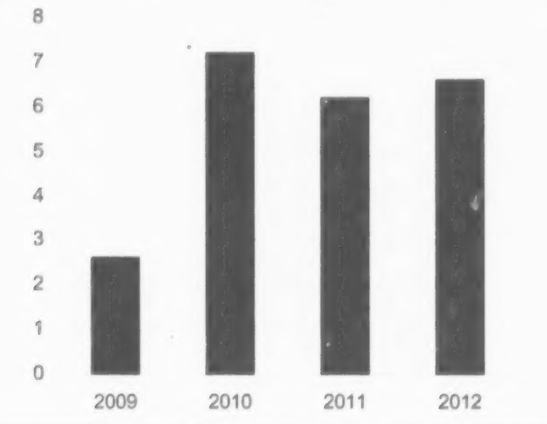
— After expanding 7.2% in 2010, emerging economies, led by China and India, will grow at a rate of 6.2% in 2011 and 6.6% in 2012.

With their economic structure remaining mainly oriented towards exports, emerging economies will benefit both from the growth in world trade and domestic demand, which is gradually becoming a more important economic driver. Increased consumption should continue to boost demand for imported goods, which hit a high in December 2010.

These trends should increasingly benefit advanced economies and boost their exports. As a result, the observed trade imbalances between emerging and advanced economies should diminish over the next few years.

CHART B.4

Growth in emerging economies
(real GDP, percentage change, data based on purchasing power parity)

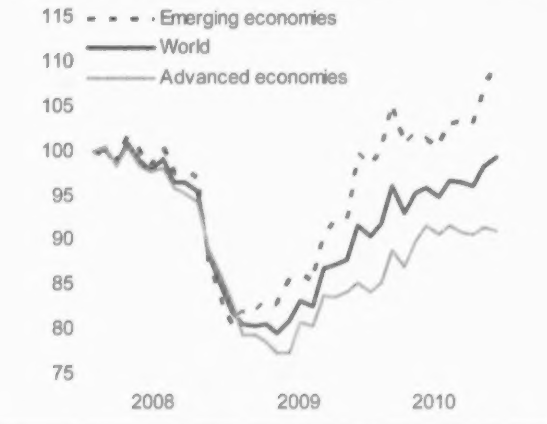


Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART B.5

Merchandise imports

(index, January 2008 = 100)



Sources: CPB Netherlands Bureau for Economic Policy Analysis and Ministère des Finances du Québec.

Emerging economies' strong growth is putting upward pressure on inflation

After seeing robust economic growth in 2010, emerging economies faced a rise in inflation. It recently accelerated, reaching 4.9% in China, 6.0% in Brazil and 9.6% in Russia, measured on an annual basis, in January 2011. Inflationary pressures led several emerging economies to tighten their monetary policies by raising either their key interest rates or their reserve requirements.

Inflation in emerging economies

The strong performance by emerging economies also boosted demand for commodities, including oil, and attracted inflows of foreign capital, factors that fostered inflation.

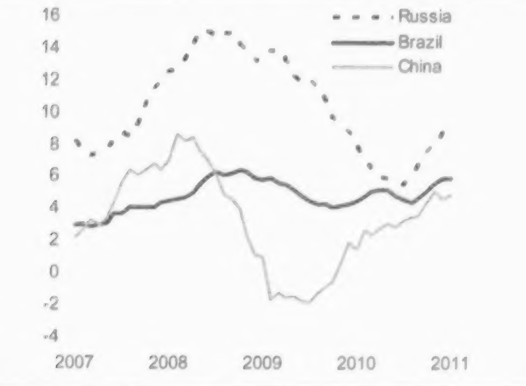
- The price of oil rose sharply in late 2010 and early 2011. Since December 2010, food prices have surpassed the 2008 peak. These increases have a substantial impact on overall inflation in emerging economies, where food products often account for over 30% of the consumer basket.
- Growth in real estate and manufacturing investments, driven in particular by the inflow of foreign capital, added to inflationary pressure.
- In China, inflation was also fuelled by easy access to credit, which resulted in a marked increase in the value of properties.

A different situation in advanced economies

The inflation rate also edged up recently in a number of advanced economies. The United Kingdom and the euro area, for example, are confronted with higher overall inflation rates than their central banks' targets.

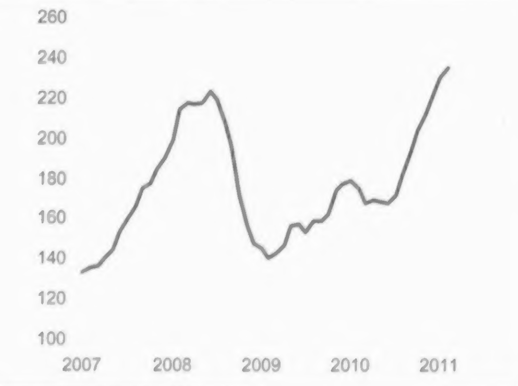
- Even so, core inflation, which excludes food and energy, generally remains contained in advanced economies owing to the downward effect on inflation of high unemployment rates and persistent output gaps.
- These factors should enable central banks to maintain their expansionary monetary policies for a while. However, continued high inflation in emerging economies could result in persistently increasing prices for imported products in advanced economies.

Consumer price index
(annual percentage change)



Sources: IHS Global Insight and Datastream.

FAO Food Price Index[1]
(index, 2002-2004 = 100)



[1] Index based on the average of five food commodity price group indices, weighted with the average export shares of each of the groups for 2002-2004.

Source: Food and Agriculture Organization of the United Nations (FAO).

❑ Moderate growth in advanced economies

After robust growth of 2.9% in 2010, advanced economies will expand at a rate of 2.2% in 2011 and 2.5% in 2012. However, growth will be unevenly distributed.

- It will be higher in the United States, at 2.9% in 2011 and 3.0% in 2012, driven by the expansionary monetary policy and the package of fiscal measures adopted by the US authorities.
- Beginning in 2011, growth in the euro area and United Kingdom economies will be limited by the implementation of fiscal austerity plans and persistently high unemployment rates.

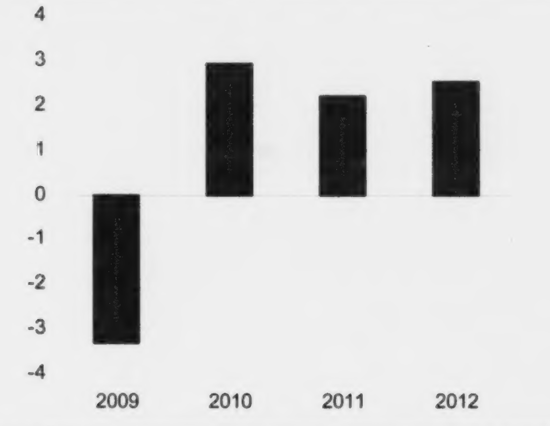
Advanced economies will continue to gain from expansionary monetary policies. Moreover, they will benefit further from demand coming from emerging economies, which will fuel export growth. As a result, the private sector will gradually take over from governments in driving economic growth, notably owing to increased investment and a gradual rise in employment.

- However, these improvements will not be enough to enable a brisk drop in the unemployment rate, which will average 8.1% in 2011 and 7.8% in 2012.

CHART B.6

Growth in advanced economies

(real GDP, percentage change, data based on purchasing power parity)

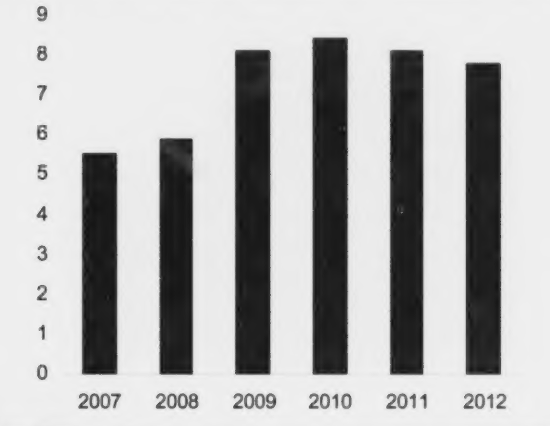


Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

CHART B.7

Unemployment rate in advanced economies

(per cent)



Source: IHS Global Insight.

☐ The deficit problem persists

Due to high deficits, the sovereign debt of advanced economies rose sharply following the recession in 2008 and 2009. According to the International Monetary Fund (IMF), the deficit-to-GDP ratio in these countries jumped from an average of 1.1% in 2007 to 8.9% in 2009.

Although the budgetary situation improved slightly with the economic recovery, most advanced economies have maintained large budget deficits, which are expected to average 7.9% of GDP in 2010.

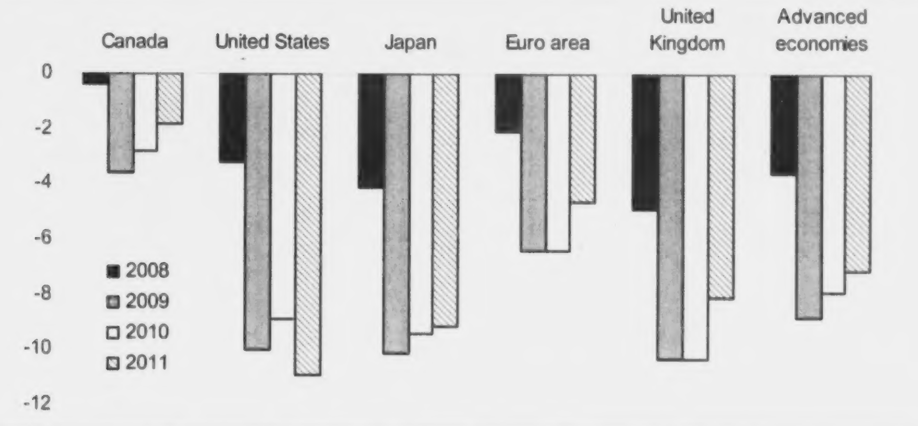
In this context, several governments have announced austerity measures to restore public finances to health. Again according to the IMF, the deficit-to-GDP ratio will drop by 0.8 percentage point in 2011 and 1.9 percentage points in 2012.

— Some European countries facing serious budget problems, including Ireland, Greece, Portugal, Spain and the United Kingdom, have already implemented severe austerity plans.

— More-gradual fiscal recovery measures are also expected, starting in 2011 in France, Germany, Italy and Canada and in 2012 in the United States and Japan.

CHART B.8

Fiscal deficits in advanced economies
(as a percentage of GDP)



Sources: Figures for public administration deficits are taken from the International Monetary Fund (*Fiscal Monitor Update, January 2011*), except for Canada and the United States, whose deficit figures are taken from government sources and apply only to the federal government. Aggregate data for advanced economies are equivalent to the weighted average of the budget balances of advanced economies, based on International Monetary Fund estimates.

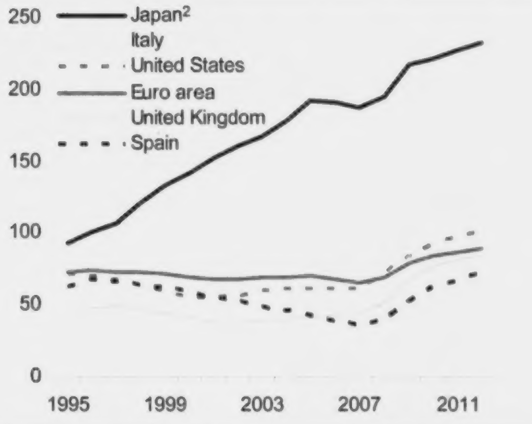
The accumulation of deficits resulted in a sharp increase in the debt-to-GDP ratio of advanced economies. The ratio is expected to rise from 79.2% in 2008 to 103.6% in 2012. The higher sovereign debt of these economies poses serious economic and financial challenges and could weigh on future growth. For example:

- it can impede the governments' capacity to establish policies for fostering economic growth, which in turn can put a drag on productivity and real GDP growth in the medium term;
- governments' increased funding requirements can reduce the amount of capital available to businesses, in particular on bond markets, making it harder for them to obtain financing;
- in some cases, it may drive up interest rates on government bonds because of the increased risk associated with the governments' debt securities. The higher interest rates hamper governments' ability to respect their financial obligations.

Consequently, in 2010 some euro area economies with significant debt problems faced much higher financing costs in bond markets.

CHART B.9

Government gross debts[1]
(as a percentage of GDP)

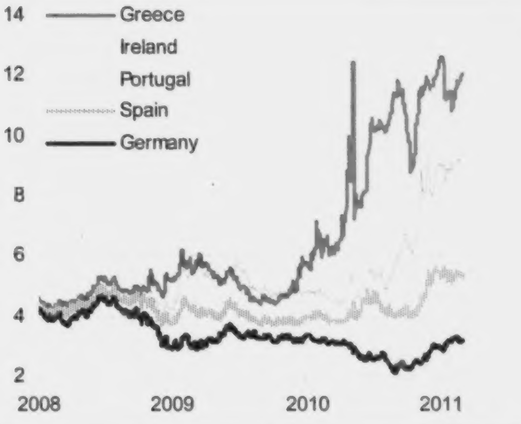


[1] IMF definition: includes all financial commitments entailing the repayment of principal or interest.
[2] The rise in Japan's gross debt was funded primarily by domestic savings.

Sources: International Monetary Fund and Office of Management and Budget.

CHART B.10

Interest rate on 10-year government bonds
(per cent)



Source: Bloomberg.

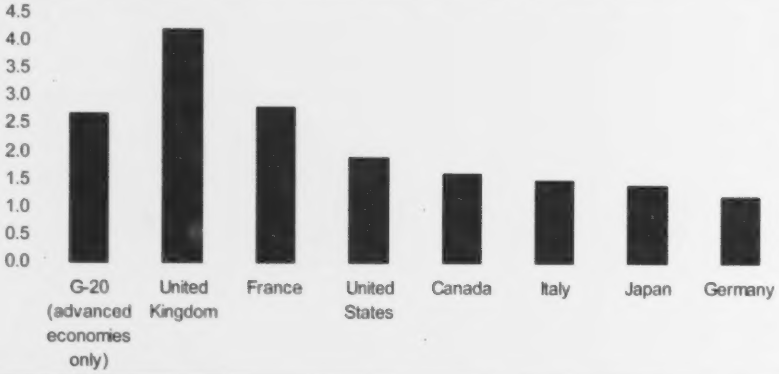
Fiscal tightening measures unveiled by advanced economies

Extent of fiscal tightening effort

According to IMF forecasts, the deficit-to-GDP ratio will decline between 2010 and 2012, by 2.4 percentage points in the euro area, 4.2 in the United Kingdom and 1.4 in Japan.

As announced in the budget tabled in February 2011, the United States government expects to reduce its deficit-to-GDP ratio by 1.9 percentage points in the fiscal years 2010-2012. The Government of Canada forecasts a decrease of 1.6 percentage points in its deficit-to-GDP ratio over the same period.

Projected reduction in budget deficits – 2010-2012
(cumulative change in deficit-to-GDP ratio, in percentage points)



Note: Budgetary forecasts for the United States are taken from the 2012 US Budget released by the federal government in February 2011. Forecasts for Canada are taken from the economic update released by the Department of Finance Canada in October 2010.
Sources: International Monetary Fund (January 2011), Office of Management and Budget and Department of Finance Canada.

Measures for restoring fiscal balance

Governments can reduce their deficit by cutting spending or raising their revenues. The majority of austerity plans unveiled by advanced economies provide for both tighter spending and revenue-raising measures.

- To increase their revenues, several governments have chosen to raise income tax either by raising tax rates or widening tax bases: for example, France, Denmark and the United Kingdom. In addition, a number of governments, such as Germany, France and the United Kingdom, are looking to raise their revenues from the social security contribution.
- To reign in spending, some governments, for example those of Germany, Canada, France, Italy and the United Kingdom, have chosen to control the civil service payroll through a salary freeze or attrition. Spending will also be restrained as a result of the phase-out of measures introduced during the recession and the lower cost of income security schemes as the economy recovers.
- Some governments have also announced measures to improve income tax collection and fight tax evasion.

Despite the scope of austerity measures unveiled by governments, according to the IMF some countries may have to undertake additional fiscal efforts in order to curb expansion of their long-term debt. The aging population in some advanced economies, particularly Japan and the euro area, will increase pressure on government spending.

1.2 Growth outlook by country

❑ Canada

Canada's economy is expected to grow by 2.4% in 2011. The expansion will be driven by increased domestic demand, though moderated by the expiry of economic stimulus measures. Canada will also have to cope with the impact of its strong dollar on exports. Economic growth of 2.8% is forecast for 2012.

❑ United States

In the United States, real GDP will increase by 2.9% in 2011, with expansionary monetary and fiscal policies fostering growth in consumption and business investment. Real GDP growth of 3.0% is forecast for 2012, despite the gradual phase-out of government stimulus measures. Economic activity will be supported by robust foreign demand and a greater contribution from the private sector, which will gradually translate into more job creation.

❑ Euro area

The euro area will see economic growth of 1.3% in 2011 and 1.6% in 2012. Expansion will be curbed in several countries by the fiscal austerity measures. However, Germany, Europe's economic engine, is already benefiting from rising domestic demand and will gain from global economic growth thanks to its exports.

❑ United Kingdom

The United Kingdom's economy is expected to show moderate growth of 1.5% in 2011 and 2.0% in 2012. The implementation of austerity measures, starting in 2011, will limit economic recovery, with domestic demand still being weakened by a financial sector that has not yet fully recovered from the recession.

❑ Japan

Japan's economy expanded 3.9% in 2010, its strongest growth in 20 years, after contracting 6.3% in 2009. Slower export growth and the expiry of economic stimulus measures should limit economic growth to 1.1% in 2011 and 1.5% in 2012.

☐ China

The Chinese economy will continue to grow at a strong rate of 9.0% in 2011 and 8.7% in 2012, after expanding 10.3% in 2010. The slight deceleration in growth is attributable to the expiry of economic support measures and tightening of monetary policy to curb inflationary pressure. Nonetheless, the good performance of the United States' economy should continue to support Chinese exports.

☐ India

India should also see strong economic growth in 2011 and 2012, at a rate of 8.0% and 8.3% respectively, compared with 8.6% in 2010. In 2011, the Reserve Bank of India will continue its tightening cycle initiated in order to tame inflation. Indian exports will also benefit from the improved growth forecasts for the US economy.

TABLE B.2

Worldwide economic growth outlook
(real GDP, percentage change)

	Weight in global GDP[1]	2010	2011	2012
World	100.0	4.8	4.0	4.5
Advanced economies	51.5	2.9	2.2	2.5
Canada	1.8	3.1	2.4	2.8
United States	19.9	2.8	2.9	3.0
Euro area	14.1	1.7	1.3	1.6
United Kingdom	2.9	1.3	1.5	2.0
Japan	5.7	3.9	1.1	1.5
Emerging economies	43.7	7.2	6.2	6.6
China	14.0	10.3	9.0	8.7
India	5.5	8.6	8.0	8.3

[1] In 2011, based on purchasing power parity.
Sources: IHS Global Insight, International Monetary Fund and Ministère des Finances du Québec.

1.3 Risks related to global economic growth

The economic scenario of the 2011-2012 Budget is based on a number of assumptions involving risks. If any of the risks arise, it could affect global economic growth.

☐ Significantly higher oil prices than anticipated

The price of West Texas Intermediate (WTI) crude oil rose sharply in late 2010 and early 2011, to above US$100 per barrel. This scenario assumes oil prices will return closer to fundamentals in 2011, followed by a moderate increase in 2012 due to sustained demand.

However, unforeseen geopolitical events might also affect the price of petroleum products. For instance, the recent popular uprisings in North Africa and the Middle East drove a steep jump in oil prices.

— Markets are worried that these social movements will spread and trigger political destabilization in the oil-producing countries, which could lead to a drop in the global supply of this strategic resource.

A supply shock in petroleum products, if it lasts, could have a twofold adverse effect on global economic growth.

— Higher prices would erode household purchasing power, thereby curbing household consumption.

— They would also add to inflationary pressure, possibly forcing central banks to tighten their monetary policies faster than anticipated.

☐ Increased worries about the fiscal situation in certain advanced economies

The deterioration in public finances drove up the funding costs of certain advanced economies, requiring countries such as Greece and Ireland to ask European organizations and the IMF for assistance in 2010. In the aftermath, several governments were forced to adopt vigorous measures to restore balance to their public finances. This scenario assumes that these measures, along with support mechanisms put in place, will be enough to gradually resolve these problems.

However, they may not be enough to ease financial markets' concerns about the rapidly growing debt levels of certain advanced economies. The result could be a faster-than-expected increase in bond rates, further pushing up funding costs and intensifying fiscal problems, particularly in countries most at risk.

Such an outcome could impede the functioning of the financial system and hinder the flow of credit, which would in turn make it harder to obtain financing, particularly in advanced economies, putting a drag on global economic growth.

☐ Economic support measures not accompanied by rapid employment recovery in the United States

The economic scenario also foresees a gradual increase in job creation in the United States, which will boost consumption in 2011 and 2012.

— The recession caused a serious deterioration of the US labour market and the situation has barely improved since. Only 14.5% of the 8.8 million jobs lost between January 2008 and February 2010 have been recouped. Unemployment remains high, at nearly 9.0%.

Government measures will be maintained in 2011 in order to support economic activity by stimulating consumption and investment. The Federal Reserve will continue to pursue a highly expansionist monetary policy, and federal government support for growth will remain near its 2010 level.

However, the impact of these measures on job creation and household confidence may not be as strong as anticipated, thereby dampening growth in the US economy by curtailing growth in consumption and prolonging the difficulties in the real estate sector. If this happens, it could delay the recovery in Québec exports to the United States.

2. THE SITUATION OF QUÉBEC'S MAIN ECONOMIC PARTNERS

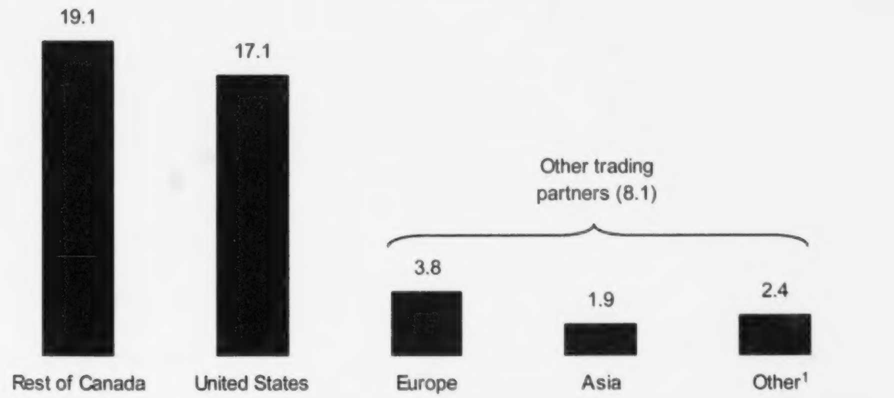
Québec is an open economy that is significantly influenced by the economic situation of its trading partners. In 2010, its exports, which represented 44.4% of GDP, were shipped to the United States (17.1%), the rest of Canada (19.1%) and Québec's other trading partners (8.1%).

The economies of Québec's main trading partners will expand in 2011 and 2012. Consequently, after struggling in 2010, Québec's exports are expected to pick up in line with growth in its main trading partners' economic activity.

- Canada's economy is expected to continue expanding, supported by consumption and investment as well as stronger foreign demand for commodities.
- US economic growth should remain robust, spurred by a firmer labour market and stronger domestic demand, business investment and exports.
- The emerging economies, which weathered the last recession well, are also expected to grow at a fast pace.

CHART B.11

Québec exports by trading partner in 2010
(as a percentage of Québec's nominal GDP)



1 Includes, in particular, Brazil, Mexico, Australia and Egypt.
Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

2.1 The situation in the United States

☐ Continued economic growth in 2011 and 2012

After growing 2.8% in 2010, US real GDP is expected to increase by 2.9% in 2011 and 3.0% in 2012.

In 2011 and 2012, economic expansion in the United States will be driven by robust growth in exports and a gradual acceleration of domestic demand. Exports will be spurred by the relatively weak dollar and emerging economies' growing demand for US products.

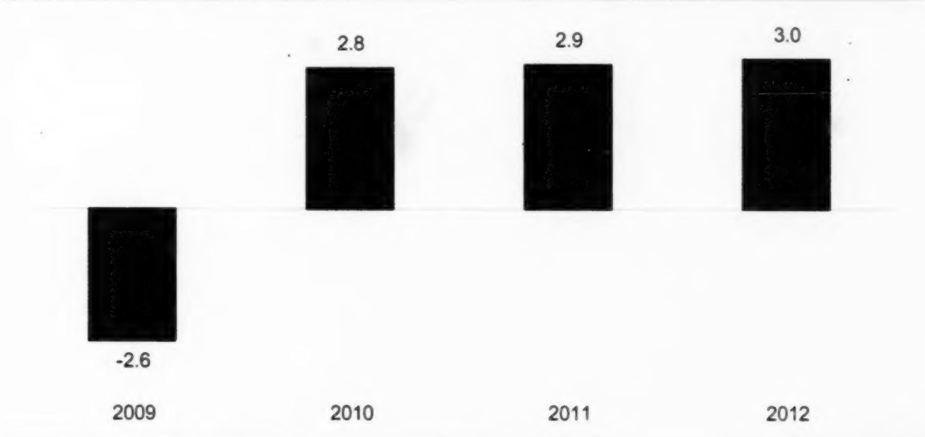
— However, the strength of economic growth will continue to be hampered by the slow improvement in the financial situation of households. In addition, a decline in residential investment is forecast for 2011.

Growth will be supported by the decision of US federal authorities to continue pursuing an expansionary monetary policy and by the adoption, in late 2010, of a new package of vigorous fiscal measures to support the economy. These measures will enable households to increase their consumption while shoring up their savings.

— The support provided by the government measures will decrease starting in 2012, although the private sector is expected to take over as job creation speeds up. This should be positive for both consumption and the real estate sector.

CHART B.12

Economic growth in the United States
(real GDP, percentage change)



Sources: IHS Global Insight and Ministère des Finances du Québec.

☐ Expansionary monetary and fiscal policies

Monetary and fiscal policies will remain expansionary in 2011. Since the start of the recovery, the US economy has been grappling with poor employment performance and a struggling real estate sector. At the end of 2010, the federal government decided to adopt additional economic support measures in 2011 through a series of tax transfers and credits for households and businesses.

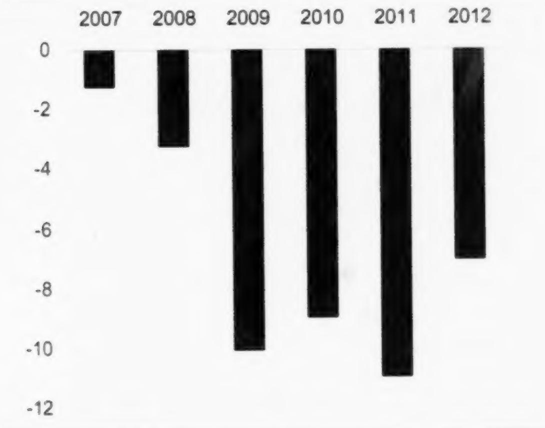
However, the extra costs of these measures will weigh on the US deficit, which has surged in recent years. The government forecasts a deficit of US$1 645 billion in fiscal year 2011, or the equivalent of 10.9% of GDP. Public finances should gradually get back into balance as of 2012.

The Federal Reserve will maintain a very accommodating stance in 2011 by keeping the federal funds rate at their lowest level and continuing its quantitative easing policy of purchasing US Treasury bonds.

As a result of continuing the $600-billion quantitative easing policy, the Federal Reserve's balance sheet will remain exceptionally large. The program is expected to end in June 2011 and should be followed by a very gradual rise in the federal funds rate starting in January 2012.

CHART B.13

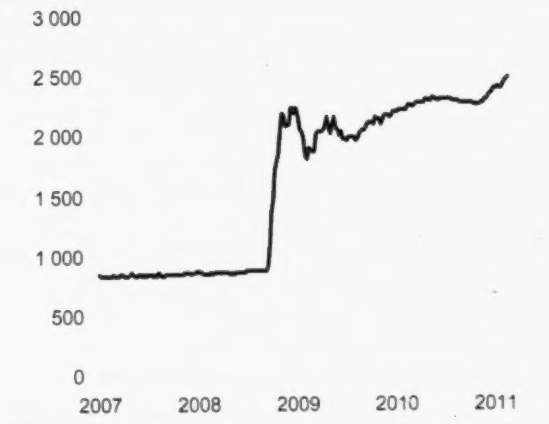
US Federal Government Fiscal Balance
(as a percentage of GDP)



Source: Office of Management and Budget.

CHART B.14

US Federal Reserve balance sheet
(assets in billions of US dollars)



Source: US Federal Reserve.

New package of fiscal measures in the United States

In December 2010, the US Congress approved the extension and adoption of several fiscal measures to help households and businesses. According to Congressional Budget Office estimates, the measures will support the US economy in 2011 and 2012, amounting to $374 billion[1] in fiscal year 2011[2] and $423 billion in fiscal year 2012. The measures can be grouped into five categories.

1. Extension of the tax cuts granted in 2001-2003

The Bush administration adopted a series of fiscal measures to reduce the tax burden of Americans, in particular income tax, taxation of capital gains and tax on inheritance assets. These measures were to expire on December 31, 2010.

- Instead, these measures will be renewed until December 31, 2012. They will reduce government revenues by $104 billion in fiscal year 2011 and $215 billion in fiscal year 2012.

2. Extension of the eligibility period for unemployment insurance benefits

Before the recession, a person could receive unemployment insurance benefits for a maximum of 26 weeks. Benefits were subsequently extended to 99 weeks. The extended eligibility period was to have ended at the end of November 2010.

- Under the new law, the maximum 99 weeks of benefits will be extended until the end of 2011, at a cost of $35 billion in fiscal year 2011 and $22 billion in fiscal year 2012.

3. Tax relief for workers

The Making Work Pay (MWP) provision of the *American Recovery and Reinvestment Act* (ARRA) provided a $400 refundable tax credit to individuals earning less than $75 000 a year. The tax credit ended on December 31, 2010.

- It was replaced with a 2-percentage-point reduction in the employee's portion of Social Security payroll taxes, which was previously 6.2% for people earning less than $106 800. This measure will cost $67 billion in fiscal year 2011 and $44 billion in fiscal year 2012. At its expiry on December 31, 2011, the measure will have put a total of $111 billion back into the pockets of workers in the 2011 calendar year.

4. Accelerated depreciation of investments

Businesses will be able to write off 100% of investments in 2011 and 50% in 2012. The cost of this measure is $55 billion in fiscal year 2011 and $58 billion in fiscal year 2012.

5. Other fiscal measures

The other fiscal measures adopted by Congress will cost a total of $113 billion in 2011 and $84 billion in 2012. The biggest measure is the adjustment in the Alternative Minimum Tax (AMT), i.e. the income level above which fewer deductions can be claimed. The agreement raises the cut-off level in 2011 and 2012, at a cost of $86 billion and $68 billion, respectively.

Cost of new fiscal measures, by fiscal year
(billions of dollars)

	Date measure ends	2011	2012	2011 - 2020
1. Extension of tax cuts granted in 2001-2003	December 31, 2012	104	215	476
2. Extension of the eligibility period for unemployment insurance	December 31, 2011	35	22	57
3. Tax relief for workers	December 31, 2011	67	44	111
4. Accelerated depreciation of investments	December 31, 2012	55	58	22
5. Other fiscal measures	December 31, 2012	113	84	192
TOTAL		**374**	**423**	**858**

Source: Congressional Budget Office.

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[1] Figures in this box are in US dollars.

[2] The 2011 fiscal year begins on October 1, 2010 and ends on September 30, 2011.

❑ More sustained consumption growth

Real US consumption is expected to grow by 3.0% in 2011 and 2.6% in 2012, driven by an increase in real personal income of 3.3% in 2011 and 1.6% in 2012, following a 1.3% increase in 2010.

— The growth in personal income will be fuelled by a gradual acceleration of monthly job creation, from an average 76 000 jobs in 2010 to 178 000 in 2011 and 233 000 in 2012, as well as by the positive impact in 2011 of the new federal tax credits for workers.

The situation of households will thus continue to improve in 2011 and 2012. Thanks to income gains, households will be able to rapidly increase their consumption in 2011 while continuing to restore their savings.

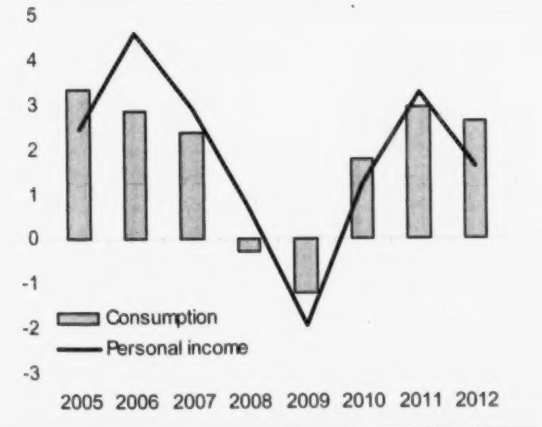
— During the recession, households cut back on their consumption and reduced their debt level. In 2010, this change, coupled with low interest rates, reduced the ratio of debt service to personal disposable income to levels not seen since the 1990s.

— The household savings rate will remain high in 2011, at 5.5% of personal disposable income, with households continuing to restore their balance sheets. The savings rate will subsequently fall to 3.9% of personal disposal income in 2012.

CHART B.15

Consumption and personal income in the United States

(percentage change in real terms)

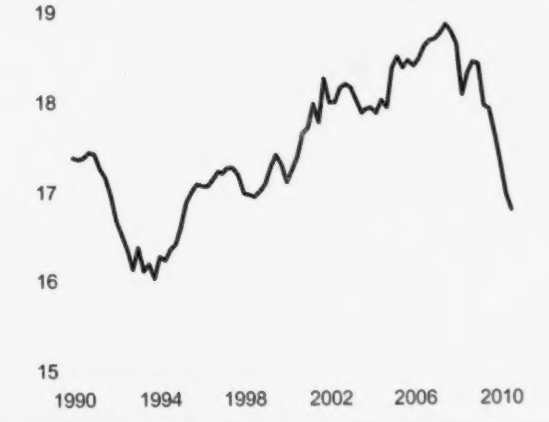


Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.16

Change in financial commitments of US households

(ratio of debt service[1] to personal disposable income, as a percentage)



[1] Repayment of principal and interest.

Source: IHS Global Insight.

❑ A favourable environment for business investment

The acceleration in consumer demand will induce businesses to increase their investment level. Improved access to bank loans, the availability of financing at advantageous rates as well as tax benefits will also have a positive impact on businesses' profitability and investment growth.

Business investment will rise by 6.2% in 2011 and 8.5% in 2012, leading to faster job creation, among other effects.

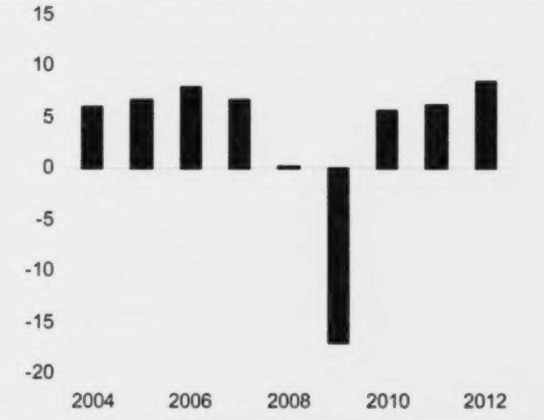
— The additional productivity gains enabled by hiring cutbacks are henceforth limited. Consequently, in order to increase their productivity, businesses will have to speed up their investments.

Furthermore, residential investment, which has been declining since 2006, will contract 2.4% again in 2011. There is still a large stock of homes for sale and vacant properties not on the resale market. At the current sales rate, it would take 18 months to sell the entire stock. However, with jobs in the United States remaining below 2007 levels, home sales will be sluggish in 2011.

Nevertheless, a 19.9% rebound in residential investment is forecast for 2012. After contracting for several years, this sector will benefit from the gradual improvement in employment. A revival in housing starts and spending on home renovations is thus anticipated, although they will remain well below their pre-recession levels.

CHART B.17

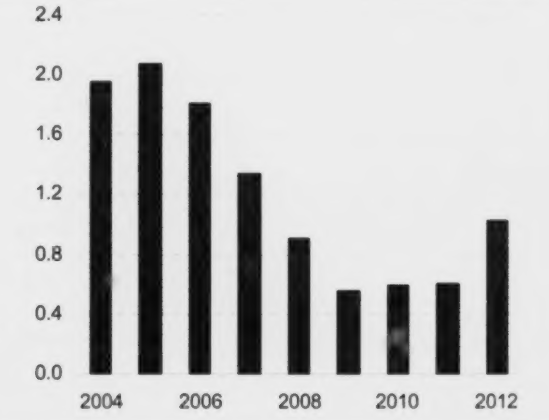
Business investment in the United States
(percentage change in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.18

Housing starts in the United States
(millions of units)



Sources: IHS Global Insight and Ministère des Finances du Québec.

☐ The external sector will sustain growth

Export growth will remain robust at 8.8% in 2011 and 8.0% in 2012, sustaining expansion of the US economy.

— In 2011 and 2012, exports will therefore grow at three times the rate of consumption.

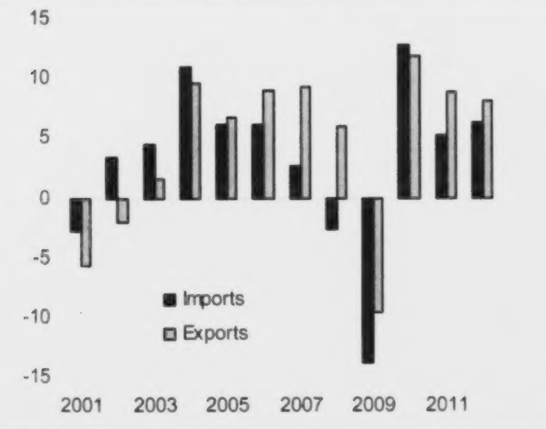
Export firms will benefit from the increased demand from emerging economies and the weak US dollar.

— The share of US exports to the BRIC countries[1] has swelled from 5.7% in 2001 to 11.7% in 2010. This upward trend should continue with the BRIC economies' domestic demand gradually increasing.

Real US imports will also climb, but lag behind exports. Import growth will be impeded by the depreciation of the US dollar, which will drive up the price of foreign products. Consequently, increases of 5.1% in 2011 and 6.2% in 2012 are forecast for imports.

CHART B.19

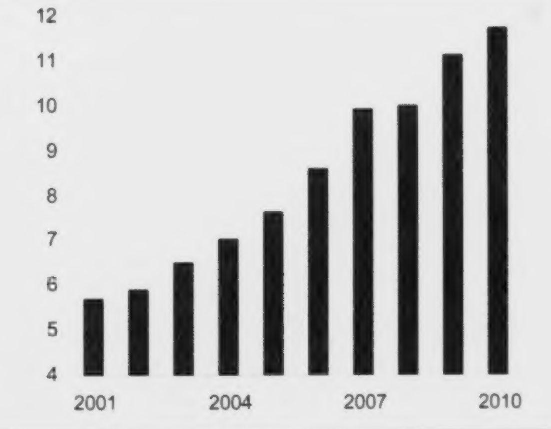
US exports and imports
(annual percentage change in real terms)



Sources: IHS Global Insight and Ministère des Finances du Québec.

CHART B.20

Share of US exports to the BRIC countries
(percentage of total exports)



Source: U.S. Census Bureau.

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[1] Brazil, Russia, India and China.

2.2 The situation in Canada

Canada was less affected by the recession than other advanced economies. Also, its economy recovered rapidly and grew steadily in 2010.

— Since the employment trough in July 2009, 467 300 jobs have been created in Canada, equivalent to the number of jobs lost during the recession. This is an impressive performance among advanced economies.

Following 3.1% growth in 2010, Canada's real GDP is expected to increase by 2.4% in 2011 and 2.8% in 2012.

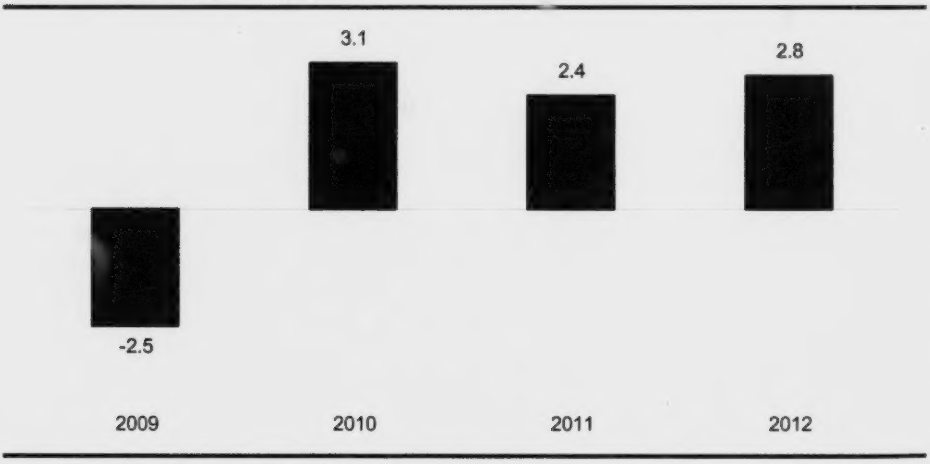
The Canadian economy will benefit in particular from the accommodating monetary conditions implemented by the Bank of Canada and the US economic recovery. In 2011, it will continue to profit from the temporary measures adopted by governments to support employment and public investment, which will be phased out gradually.

Canada will also benefit from the high commodity prices supported by growing demand from emerging economies. However, the strong Canadian dollar will put a drag on GDP growth.

In 2012, the Canadian economy should grow at a stronger pace, fuelled in particular by better performance of exports to the United States.

CHART B.21

Economic growth in Canada
(real GDP, percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Consumption and investment

After rising by 3.4% in 2010, Canadian household consumption will increase, in real terms, by 2.7% in 2011 and 2.5% in 2012.

- The rebound in consumption in 2010 is primarily due to strong job creation and restored consumer confidence.
- In 2011, job creation should continue to drive consumption, despite an anticipated gradual increase in interest rates.

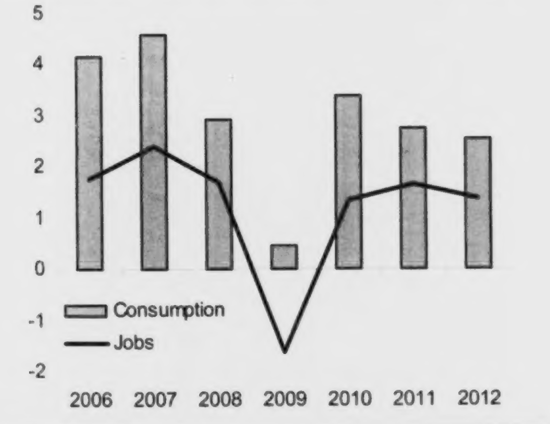
The volume of investment is expected to increase at an average rate of 5.1% per year from 2010 to 2012, stimulated in part by the upturn in energy prices and recovery of the auto industry.

- In 2009, depressed global demand and the collapse in oil and metal prices led businesses to postpone some of their investment projects, resulting in a 19.9% decline in the volume of non-residential investment.

The recovery in consumption and investment will be accompanied by the creation of 281 000 jobs in 2011 and 237 000 jobs in 2012.

CHART B.22

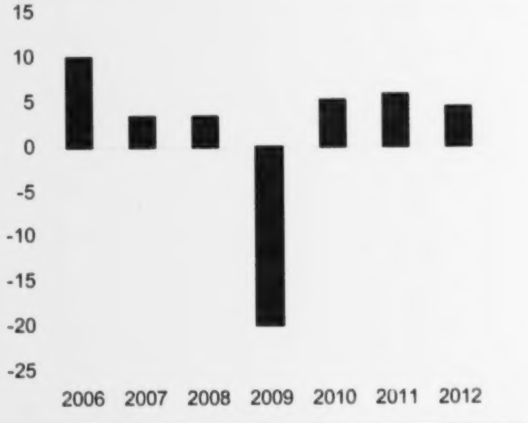
Job creation and real consumer spending in Canada
(percentage change)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.23

Business non-residential investment in Canada
(percentage change in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

❑ Exports

Canadian exports are projected to climb, in real terms, by 5.3% in 2011 and 5.7% in 2012. In 2010, exports grew by 6.4%, heavily driven by the recovery in North American automobile production. Excluding the automotive sector, Canadian exports rose by 1.7%.

In 2011, stronger demand for commodities, especially oil, should boost production and exports in the mining and petroleum sectors. The gradual revival in North American sales of light vehicles will continue to stimulate production and exports in the automotive sector. However, export growth in other sectors will be curtailed in 2011 by the appreciation of the Canadian dollar.

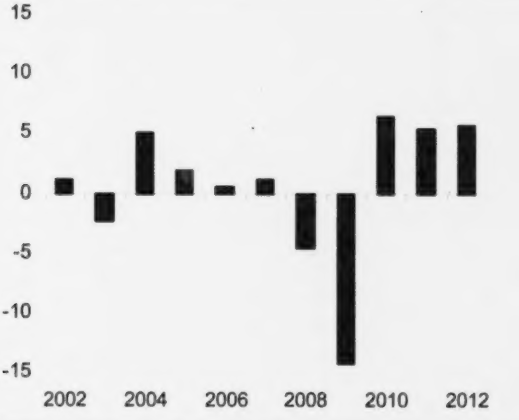
❑ Imports

Canadian imports are expected to grow at a much slower pace of 4.3% in 2011 and 4.0% in 2012.

After shrinking during the 2009 recession, demand increased in 2010, driving a 13.4% jump in imports and a contraction in the external sector's contribution to economic growth. The increase in imports is attributable in particular to the 16.4% growth in imports of machinery and equipment stimulated by the upturn in business investment.

CHART B.24

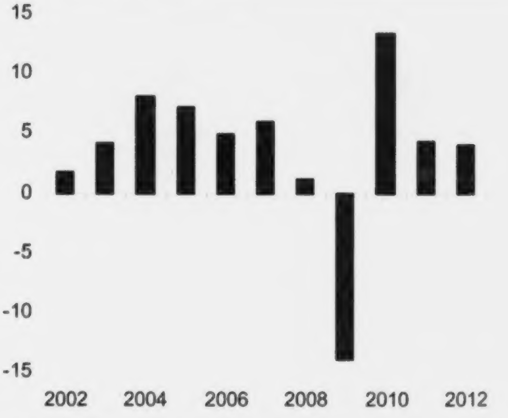
Canadian exports
(percentage change in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.25

Canadian imports
(percentage change in real terms)



Sources: Statistics Canada and Ministère des Finances du Québec.

■ Demand for commodities continues to rise

Stronger demand among emerging economies, especially China, is reflected in rising commodity prices.

Global demand for oil soared and in September 2010 surpassed the peak of 88 million barrels per day reached in February 2008. The average price of WTI crude oil rose sharply from US$62 dollar per barrel in 2009 to US$80 dollars per barrel in 2010.

After rising sharply since November 2010, the price of oil is expected to fall closer to fundamentals during 2011, settling at an average price of US$96 throughout 2011.

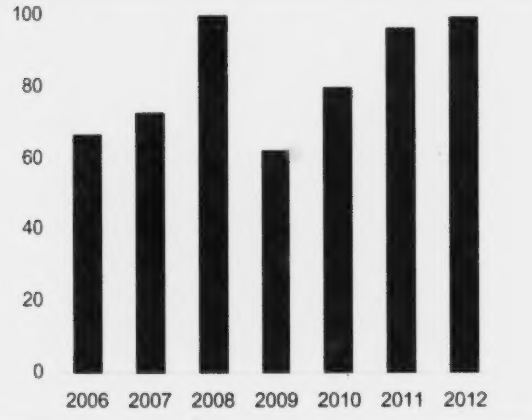
— As it is particularly sensitive to the geopolitical situation in the Middle East and North Africa, the price of oil could still fluctuate widely.

Prices for other commodities are also expected to climb in 2011 and 2012, supported by the growth of emerging economies, which should have a positive impact on Québec and Canada, both exporters of natural resources.

CHART B.26

Price of a barrel of West Texas Intermediate (WTI) oil

(US dollars)

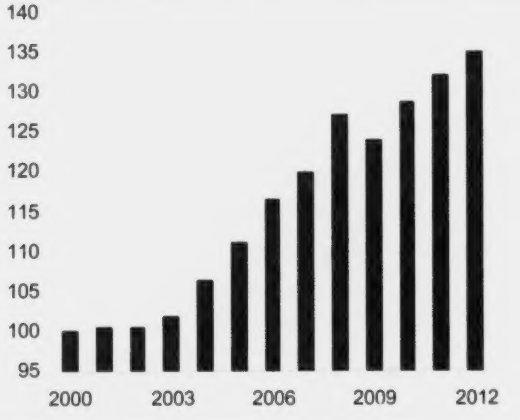


Sources: Bloomberg and Ministère des Finances du Québec.

CHART B.27

Price of non-energy commodities

(index, year 2000 = 100)



Sources: IHS Global Insight and Ministère des Finances du Québec.

Canadian dollar expected to remain high

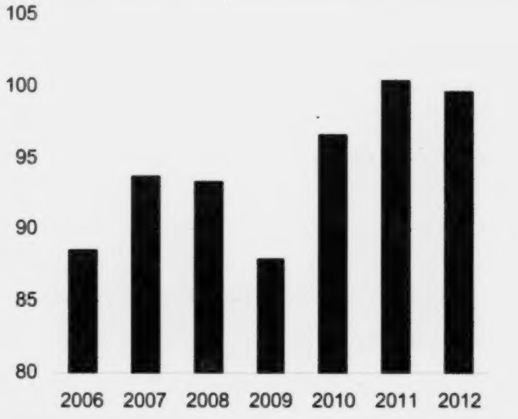
After appreciating nearly 9% against the US dollar in 2010, the Canadian dollar should average close to parity in 2011 and 2012, supported by:

- the price of oil, which is highly correlated with the Canadian dollar;
- the prices of other commodities, sustained by demand from emerging economies;
- short-term interest rates, which are expected to remain higher in Canada than in the United States for several quarters;
- the relatively advantageous position of Canada's public finances, which should continue to attract foreign investment and support demand for Canadian debt securities.

After averaging 96.5 US cents in 2010, the Canadian dollar is expected to average at parity in 2011 and then depreciate slightly in 2012, while continuing to hover near parity.

CHART B.28

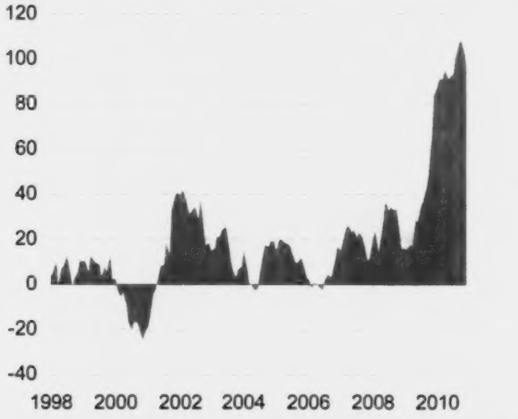
Canadian dollar exchange rate
(US cents)



Sources: Bloomberg and Ministère des Finances du Québec.

CHART B.29

Foreign investment in Canadian bonds
(12-month cumulative, billions of dollars)



Source: Bloomberg.

Bank of Canada's key interest rate to gradually rise starting in mid-2011

Key interest rate

The first of the G7's central banks to tighten its monetary policy following the last recession, the Bank of Canada (BoC) raised its key interest rate 25 basis points three times in a row between June and September 2010, to reach 1.0%.

Since then, it has left it unchanged owing to the economic and financial uncertainties affecting Canada's economic outlook, including the fragile economic recovery in the United States, the sovereign debt crisis in Europe and the impact of the strong Canadian dollar on exports.

The BoC is nevertheless expected to resume its cycle of monetary tightening in the second half of 2011, returning its key interest rate to a level that better matches the robust Canadian domestic economy. However, the rise in the key interest rate should be gradual. If necessary, the BoC may slow the pace of its monetary tightening if inflation remains weaker than anticipated due to the strong Canadian dollar.

- The key interest rate is thus expected to stand at an accommodating level of 2.0% at the end of 2011.
- Three-month Treasury bills will increase in tandem with the target rate, to 1.4% on average in 2011.

Bond rates

On the bond market, uncertainties surrounding the fragile recovery of advanced economies caused the yield on federal bonds to drop in 2010.

- The 10-year federal bond yield fell by nearly 50 basis points between the first and third quarters.
- This downward trend reversed near the end of the year, with rates rising nearly 60 basis points from their lowest level in 2010.

Starting in 2011, bond yields are expected to increase in response to the rise in Canada's key interest rates, the improved growth outlook for the US economy and a trend toward the reallocation of assets to equities due to higher risk tolerance on the part of investors.

— As a result, a gradual increase in the yield on 10-year federal government bonds is anticipated, averaging 3.6% in 2011 and 4.6% in 2012.

TABLE B.3

Canadian financial markets
(average annual percentage rate)

	2009	2010	2011	2012
Target for the overnight rate	0.4	0.6	1.3	2.6
Treasury bills - 3-month	0.3	0.6	1.4	2.7
Bonds - 10-year	3.3	3.2	3.6	4.6
Canadian dollar (in US cents)	87.9	96.5	100.4	99.6

Sources: Statistics Canada and Ministère des Finances du Québec.

THE ECONOMIC SITUATION IN QUÉBEC

This section presents the economic outlook for Québec, particularly changes in real GDP and its components in 2011 and 2012 as well as five-year economic forecasts. A subsection is devoted to the long-term growth outlook.

3.1 The Québec economy remains on a steady growth path

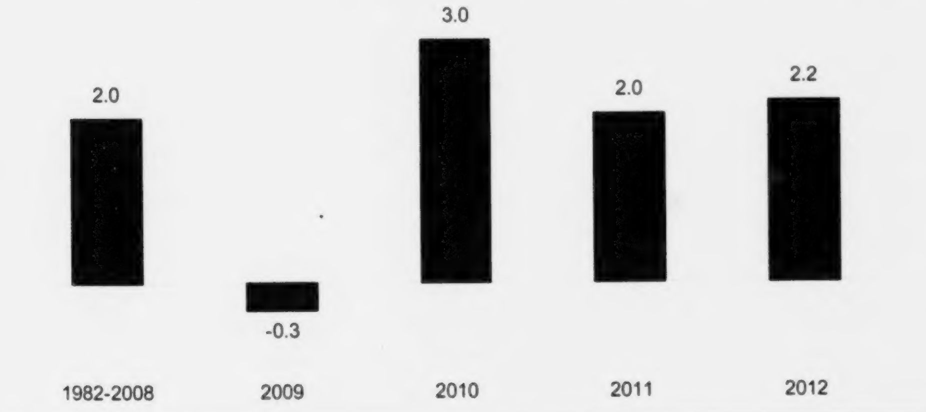
After increasing by 3.0% in 2010, real GDP should expand 2.0% in 2011 and 2.2% in 2012, a pace close to its historical trend.

The renewed growth in 2010 was spurred by:

- strong job creation;
- sustained growth in domestic demand;
- the impact of economic stimulus measures;
- the significant upturn in business investment;
- the rebound in residential construction.

CHART B.30

Economic growth in Québec
(real GDP, percentage change)



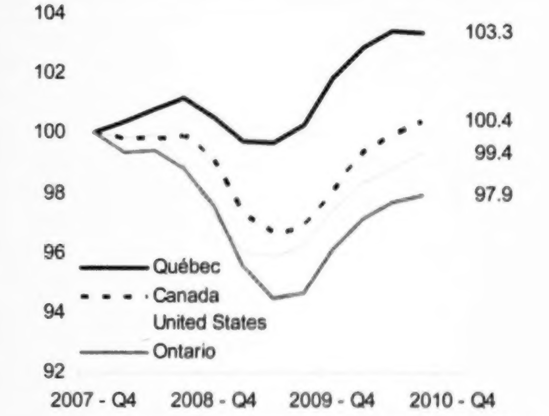
Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

Québec was not as hard-hit by the global recession as its main economic partners. Real GDP fell just 1.5% from pre-recession highs, compared with a contraction of 5.5% in Ontario and 4.1% in the United States.

— Québec also returned to its pre-recession production levels much faster. In addition, since July 2009 Québec has created 125 000 jobs, twice the number lost during the recession.

CHART B.31

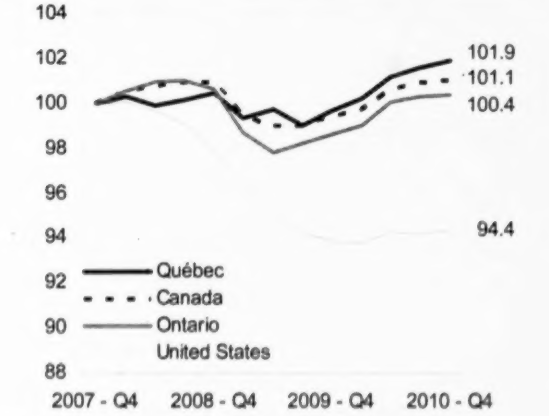
Real GDP – Québec and main partners
(index, fourth quarter of 2007 = 100)



Sources: Institut de la statistique du Québec, Statistics Canada, Ontario Ministry of Finance and IHS Global Insight.

CHART B.32

Employment – Québec and main partners
(index, fourth quarter of 2007 = 100)



Sources: Statistics Canada and IHS Global Insight.

Economic growth in 2011 will continue to be driven by strong domestic demand spurred by continued job creation, an acceleration of business investment and maintenance of the Québec government's infrastructure investments. However, in 2011 the Québec economy will have to cope with an environment marked by:

— the high Canadian dollar puts a drag on exports but favours machinery and equipment imports, which bodes well for productivity and future export growth;

— the gradual expiry of government economic stimulus measures and the Québec government's plan to restore fiscal balance, which will slow economic growth in the short term. However, the plan is a necessary step to ensure the viability of public finances and build a solid foundation for future economic growth.

Québec's real GDP and its components in 2010

Like Canada's output, Québec's real GDP grew strongly in early 2010 and then slowed in pace starting in the second quarter. During the first three quarters of 2010, real GDP increased by 3.3% compared with the same period in 2009.

Québec's real GDP and its components in 2010
(quarterly percentage change)

	1st quarter	2nd quarter	3rd quarter	2010[1]
Final domestic demand	1.5	0.3	1.1	4.4
Net exports[2]	– 2.1	– 0.7	– 1.7	– 4.2
Inventory[2]	1.3	0.8	0.4	2.5
Real GDP	**1.0**	**0.5**	**– 0.1**	**3.3**

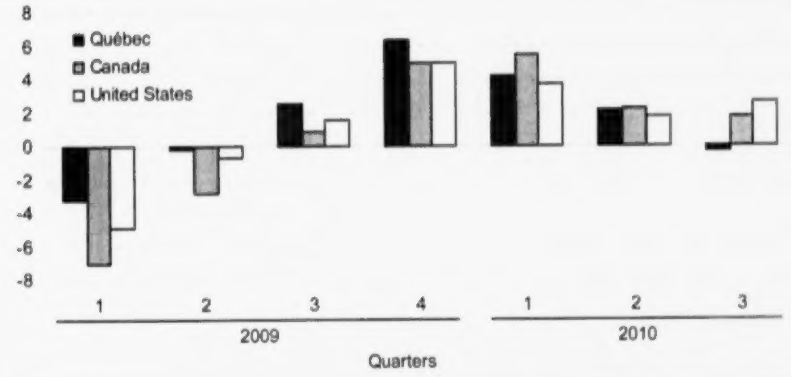
1 Cumulative for available quarters, 2010/2009.
2 Contribution to economic growth.
Source: Institut de la statistique du Québec.

In 2010, Québec's economic growth was supported by robust domestic demand. On average, residential construction (16.0%), business investment in machinery and equipment (9.5%) and public investment (8.2%) rose sharply during the first three quarters of 2010 compared with the same period in 2009. As well, consumer spending (3.7%) continued to grow at a steady pace.

Furthermore, the inventory build-up translated into an average contribution of 2.5 percentage points to real GDP growth. Businesses took advantage of the strong Canadian dollar and better sales forecasts to accumulate nearly $3 billion worth of inventory, especially at the beginning of the year.

By contrast, the external sector's contribution to real GDP growth remained negative mainly in response to the high Canadian dollar. Like that of its North American trading partners, Québec's real GDP growth slowed in the second half of 2010. All in all, following a stronger recovery in Québec than in Canada and the United States, GDP growth is expected to return, in 2011, to a level closer to its historical trend.

Economic growth in Québec, Canada and the United States
(real GDP, percentage change at annual rates)



Sources: Institut de la statistique du Québec, Statistics Canada and IHS Global Insight.

3.2 Good labour market performance in 2011

☐ Strong job creation in 2010

In 2010, the Québec labour market gained 66 700 jobs, a 1.7% increase over 2009. By comparison, employment rose by 1.7% in Ontario and 1.4% in Canada and fell by 0.7% in the United States.

The rapid labour market improvement in Québec pushed down the unemployment rate from an average 8.5% in 2009 to 8.0% in 2010. For the first time in over 33 years, Québec's unemployment rate matched that of Canada.

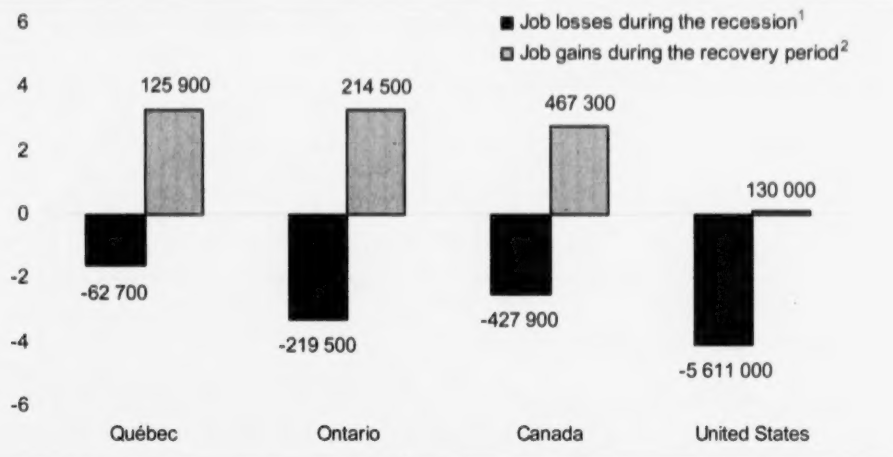
☐ Developments since the trough

Québec has recovered twice the number of jobs lost between October 2008 and July 2009, during the recession.

- Over the same period, 62 700 jobs were lost in Québec, a drop of just 1.6%, compared with 4.1% in the United States, 3.3% in Ontario and 2.5% in Canada.
- Between July 2009 and January 2011, Québec gained 125 900 jobs, an increase of 3.3%, compared with 2.8% in Canada and 0.1% in the United States.

CHART B.33

Job losses and gains
(per cent, jobs in units)



[1] Between October 2008 and July 2009, the peak and trough of Canadian employment, respectively.
[2] July 2009 to January 2011.
Sources: Statistics Canada and IHS Global Insight.

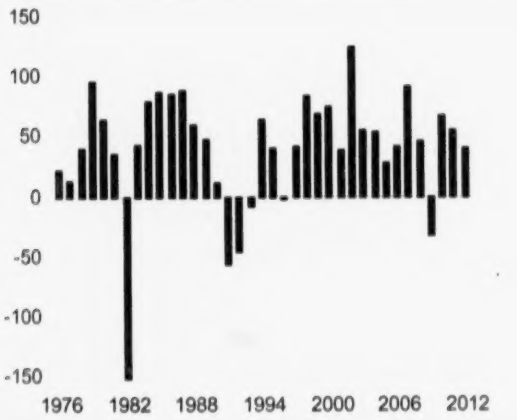
☐ Labour market outlook

Continued economic growth should result in the creation of 55 400 jobs (a 1.4% increase) in 2011 and 40 500 jobs (a 1.0% increase) in 2012, when the population of Québec will pass the 8 million mark. Over the next two years, the projected rise in employment will outpace the increase in the labour force, thereby sustaining the downward trend in the unemployment rate.

- The unemployment rate is expected to continue declining, dropping from 8.0% in 2010 to 7.7% in 2011. It will stand at 7.5% in 2012.
- The participation rate should edge up from 65.4% in 2010 to 65.5% in 2011 before levelling off in 2012.
- The employment rate should increase from 60.2% in 2010 to 60.5% in 2011 and 60.6% in 2012.

CHART B.34

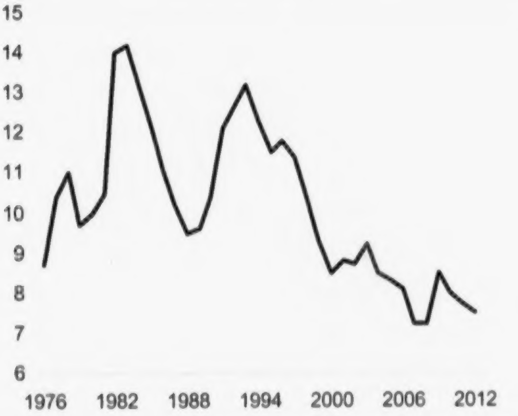
Job creation in Québec
(thousands)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.35

Unemployment rate in Québec
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

3.3 Contribution of households to economic growth

❑ Household spending

Real household consumer spending is expected to increase by 2.2% in 2011 and 1.6% in 2012. Employment and income growth will continue to boost real consumer spending for the next two years.

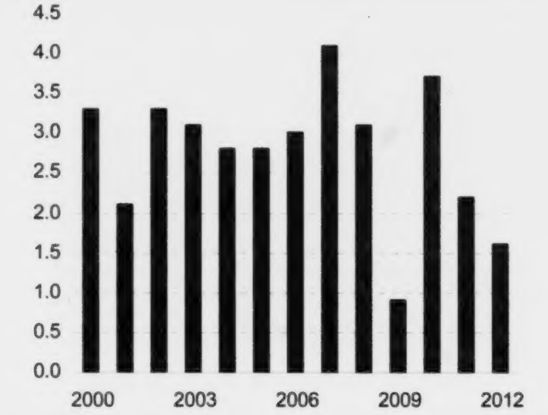
- However, growth will be curtailed by increases in interest rates as well as in the Québec sales tax (QST).

In 2010, real consumer spending rose by 3.7%. This rebound mainly reflects:

- ongoing improvement in the labour market. Employment was up 1.7% in 2010;
- income growth. Personal disposable income rose, in real terms, by 2.7% in 2010;
- renewed household confidence. The household confidence index rose from an average 65.5 points in 2009 to 79.5 points in 2010.

CHART B.36

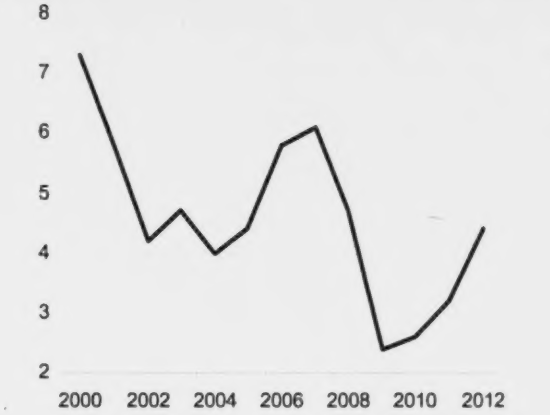
Household spending in Québec
(percentage change in real terms)



Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.37

Prime interest rate
(per cent)



Sources: Statistics Canada and Ministère des Finances du Québec.

☐ Residential investment

Residential investment grew, in real terms, by 13.3% in 2010, but is expected to decline by 5.2% in 2011 and 3.7% in 2012.

■ Housing starts

The tighter mortgage insurance rules and higher interest rates are expected to curtail housing demand in 2011 and 2012, slowing housing starts to 45 100 units in 2011 and 41 000 units in 2012.

This slowdown will follow a rebound of 18.3% in 2010, to 51 400 units, in response to suppressed demand during the recession and the earlier purchase of homes due to the anticipated increase in mortgage rates.

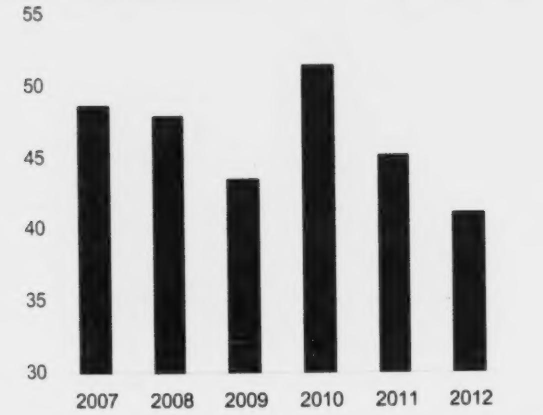
■ Renovation expenditures

Renovation expenditures rebounded 12.0% in 2010, bolstered by the home renovation tax credits introduced by the governments of Québec and Canada.

With households having hastened their renovation plans in early 2010, before incentive measures ended, renovation expenditure growth will slow to 1.0% in 2011 and 0.6% in 2012.

CHART B.38

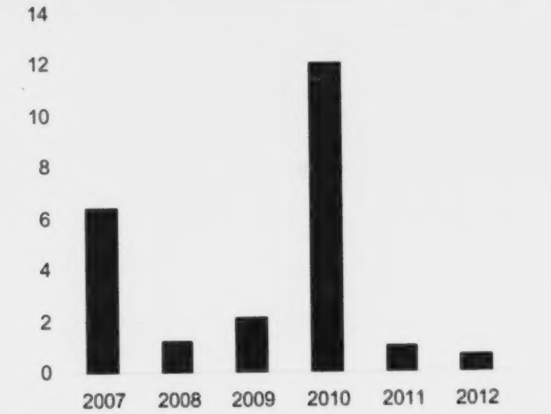
Québec housing starts
(thousands of units)



Sources: Canada Mortgage and Housing Corporation and Ministère des Finances du Québec.

CHART B.39

Québec home renovation
(percentage change in real terms)



Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

New measures regarding insured mortgage loans[1]

On January 17, 2011, the Department of Finance Canada announced three new measures regarding government-backed insured mortgages. The new measures:

- reduce the maximum amortization period for new government-backed insured mortgages to 30 years from 35 years;
- lower the maximum amount households can borrow to refinance their mortgages to 85% from 90% of the value of their homes;
- withdraw government insurance backing on lines of credit secured by homes.

The first two measures come into force on March 18, 2011. The third measure comes into force on April 18, 2011.

A return to more stringent borrowing conditions

Since 2008, the Department of Finance Canada has announced a number of measures aimed at tightening the borrowing conditions for insurable mortgages. The measures came after two years during which mortgage insurers provided much easier access to credit. Overall, the borrowing conditions that will apply following adoption of the new measures will still be more flexible than those prior to 2006.

Change in principal borrowing conditions for insurable mortgages

Date	Rules
Before 2006	Minimum downpayment: 5% Maximum amortization period: 25 years Minimum downpayment required for a non-insured mortgage: 25%
From 2006 to 2008	No downpayment required Maximum amortization period: 40 years Minimum downpayment required for a non-insured mortgage: 20%
From 2008 to 2011	Minimum downpayment: 5% Maximum amortization period: 30 years Minimum downpayment required for a non-insured mortgage: 20%
In 2011	Minimum downpayment: 5% Maximum amortization period: 30 years Minimum downpayment required for a non-insured mortgage: 20%

Sources: Canada Mortgage and Housing Corporation and Department of Finance Canada.

Impacts of the new measures

The reduction in the maximum amortization period for new insured mortgages should encourage a certain group of potential buyers to get out of the market or decide to buy something more affordable. In the medium term, this would result in a slight downturn in housing demand and put downward pressure on the price of existing homes.

The other two measures are expected to have a minor negative impact on consumer and renovation spending. First, they will limit the availability of credit for borrowers and, second, they will likely cause a slight increase in the cost of interest paid on mortgage-secured lines of credit. These measures will have less of an impact given that few mortgage refinancing contracts have a loan-to-value ratio over 85% and few financial institutions insure their mortgage-secured line of credit portfolio.

The combined effect of the three new measures should be a slowdown in Québec household debt. Mortgages are by far the biggest debt item, accounting for over three quarters of the average household debt in Québec.

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[1] Federally regulated lending institutions, in particular the big Canadian banks, require mortgage insurance from home buyers who put down less than 20% of the purchase price.

Weak growth in Québec household debt between 2000 and 2009

The debt level and its impact on household balance sheets are major challenges for advanced economies. Many Canadian banks and government institutions[1] recently started paying attention to household debt levels, particularly households at risk. In Québec, the Ministère des Finances used a sample from Ipsos Reid's *Canadian Financial Monitor* survey for 2000 and 2009 to obtain a portrait of the financial situation of Québec households.[2]

An analysis of household finances, and more specifically the size of household debt between 2000 and 2009, shows that:

- Québec household debt increased only slightly between 2000 and 2009;
- the average debt of Québec households is lower than the Canadian average.

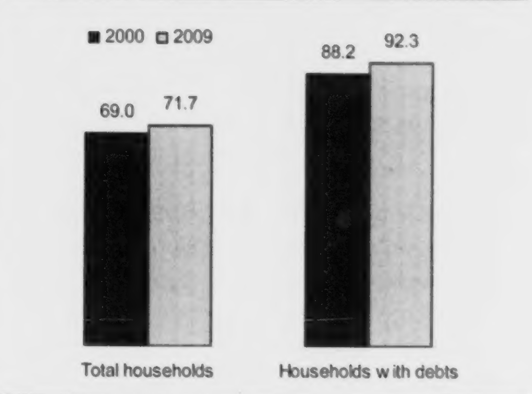
The financial situation of households can be assessed by, among other indicators, the debt ratio and the debt service ratio (DSR).

- The debt ratio of Québec households, i.e. a household's outstanding debt as a percentage of its gross income, averaged 71.7% in 2009, compared with 69.0% in 2000. The slight increase is attributable in particular to the rise in the level of mortgage loans and the introduction of new financial products on the Canadian credit market. However, the increase in the household debt ratio was moderated by the growth in average gross income, which climbed at an average annual rate of 3.5% between 2000 and 2009.
- The DSR[3] of Québec households, i.e. the total interest paid on a household's debt as a percentage of its personal disposable income (PDI), was 6.5% in 2009, compared with 7.4% in 2000. The Canadian household DSR fell to 7.4% in 2009 from 8.0% in 2000. In Ontario, the household DSR was 7.6% in 2009, compared with 8.1% in 2000. The spread with Québec is attributable in particular to lower house prices. Like in Canada, the low interest rates in Québec helped keep the DSR low.

Québec households saw their savings rate increase from 3.8% in 2000 to 4.6% in 2009. By comparison, Canadian households' savings rate edged down from 4.7% in 2000 to 4.6% in 2009.

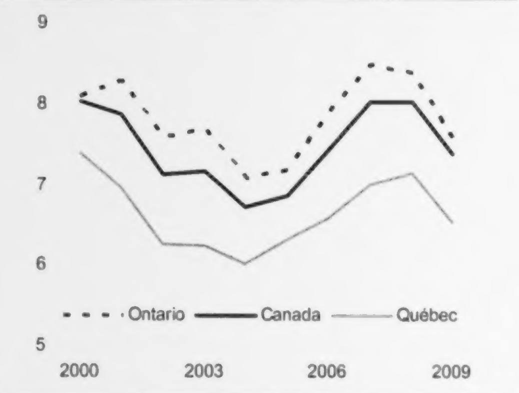
Furthermore, the recent actions taken by the federal government to tighten the mortgage supply as well as the good labour market performance should help contain the risks associated with Québec household debt levels in the coming years.

Québec household debt ratio
(debt as a percentage of gross income)



Sources: Ipsos Reid and Ministère des Finances du Québec.

Debt service ratio
(interest payments as a percentage of PDI)



Source: Statistics Canada, Provincial Economic Accounts.

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[1] Including the Bank of Canada, TD Bank, Scotia Bank, CIBC and Desjardins.

[2] The sample consisting of nearly 2 500 households surveyed in Québec provides information on various aspects of their financial situation.

[3] Statistics Canada releases the DSR for Canada and the provinces.

3.4 Non-residential investment

The value of non-residential investment is expected to rise to $45.3 billion in 2011, primarily in response to faster growth in business investment.

In 2010, the value of non-residential investment was up 5.5% to $42.0 billion. The increase was driven by continued growth in public investment and an upturn in business investment.

TABLE B.4

Non-residential investment in Québec
(billions of dollars, unless otherwise indicated)

	2009	2010	2011	2012
Total investment	39.8	42.0	45.3	47.5
- *% change*	*−1.8*	*5.5*	*7.8*	*4.8*
Business investment	25.4	26.6	29.2	31.4
- *% change*	*−10.8*	*4.9*	*9.8*	*7.5*
Public investment	14.5	15.4	16.1	16.1
- *% change*	*19.3*	*6.5*	*4.5*	*−0.3*

Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

☐ Acceleration of business investment

Following an increase of 4.9% in 2010, total non-residential business investment is expected to climb another 9.8% in 2011 and 7.5% in 2012.

During the 2009 recession, several businesses postponed their investment projects due to the uncertainty over economic activity following the export decline and weak domestic demand. This is a common reaction on the part of businesses during recessions.

Economic support plans, including substantial public infrastructure investment programs, enabled a quick return to growth in business production and profits. The revival in economic activity allowed businesses to start investing again, in particular in the hydroelectric and wind energy and primary metals sectors.

Businesses will also take advantage of the high Canadian dollar to import machinery and equipment, which will spur productivity, an upturn in exports and growth in real GDP.

☐ Public investment

Total public investment in Québec by the provincial and federal governments and municipalities is expected to expand in 2011, increasing by 4.5% to $16.1 billion and outpacing GDP growth. Public investment should amount to 4.9% of GDP in 2011, compared with 3.1% in 2006.

In 2009 and 2010, public investment rose by 19.3% and 6.5%, respectively. Public investment by the Québec government and Hydro-Québec during the recession and throughout the economic recovery will have supported employment and enabled the upgrading of infrastructure, which will drive growth in the medium term.

Furthermore, public investment has a structuring impact on the economy. In addition to improving public services, it encourages private investment in particular.

Section 4 contains a detailed assessment of past and projected trends in public capital stock as the impacts of increased public investments on Québec's economic growth.

3.5 Toward an export recovery in 2011

After struggling in 2010, exports are expected to grow by 3.4% in 2011 and 4.4% in 2012.

- The export recovery will be fuelled by the economic performance of Québec's trading partners, in particular Canada, the United States and emerging economies. However, Québec exports will have to contend with a strong Canadian dollar and a competitive international environment.

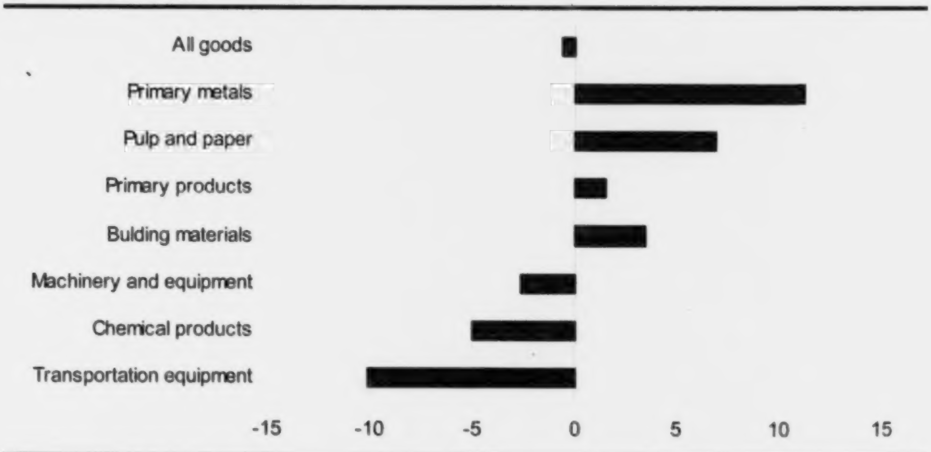
☐ A difficult 2010

In 2010, total Québec exports fell by 0.3% in real terms. Despite the recovery seen in certain sectors, the appreciation of the Canadian dollar and the delayed upturn in production in some important export sectors, including aeronautics, caused a slight downturn in exports as a whole.

- Exports recovered strongly in the primary metals sector (11.2%), fuelled by strong US demand for aluminum and precious metals, and the pulp and paper sector (6.9%), spurred by strong Chinese demand.
- However, exports of transportation equipment (– 10.1%), chemical products and petroleum by-products (– 5.0%) as well as machinery and equipment (– 2.6%) declined.

CHART B.40

Québec's international exports of goods in 2010
(percentage change in real terms)



Source: Institut de la statistique du Québec, on a customs basis.

☐ Better outlook for 2011 and 2012

Supported by a favourable environment created by the expansion of the US and Canadian economies and emerging economies' demand for natural resources, Québec exports are expected to gradually rise by 3.4% in 2011 and 4.4% in 2012, despite the persistently high Canadian dollar. In particular:

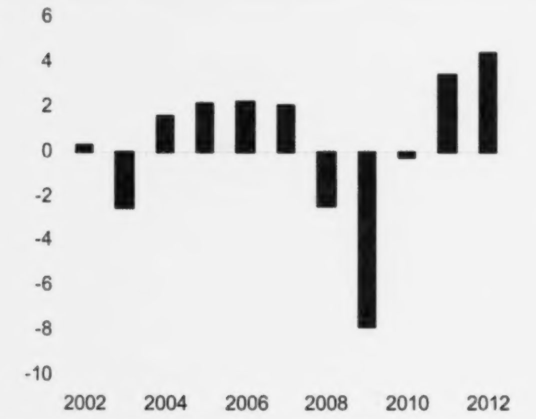
- aluminum and metal ore exports are expected to continue increasing due to firmer global demand for these products;
- after declining in 2009 and 2010, exports in the aeronautics sector are expected to level off in 2011 and then grow in 2012.

Furthermore, export dynamics observed during previous recessions suggest that Québec exports will pick up in the coming quarters.

CHART B.41

Québec's total exports

(percentage change in real terms)

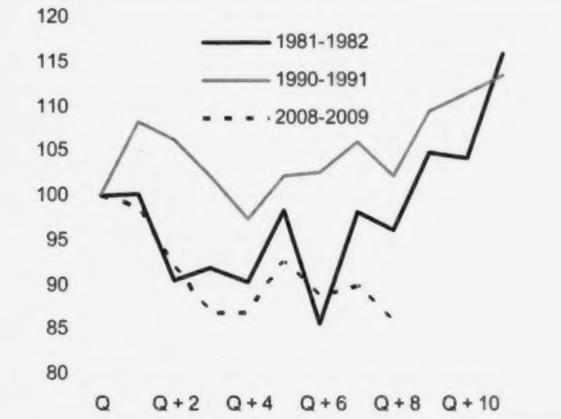


Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.42

Exports during the previous recessions

(quarterly index, pre-recession peak = 100 in real terms)



Note: During the 1990-1991 recession, exports were supported by the coming into force of the Canada-US Free Trade Agreement.

Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

US imports of Québec products

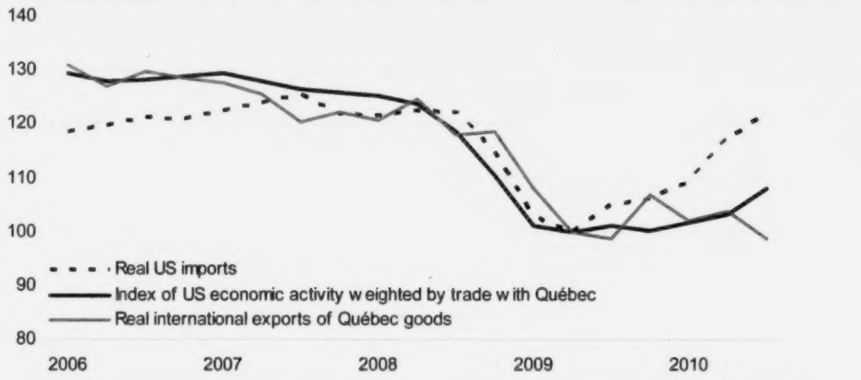
The recovery in US imports was not favourable to Québec exporters

Québec exports are closely tied to US demand. In 2010, US imports swelled, but this situation was not favourable to Québec because US imports in Québec's main export sectors lagged.

- Real US imports increased by 12.7% in 2010, whereas real international exports of Québec goods dropped by 1.3%.

The index of US economic activity weighted by trade with Québec[1] (IEAQ) corroborates these results, but recently pointed to an upswing in economic activity in the United States in significant sectors for Québec exports.

Index of US economic activity weighted by trade with Québec
(index, 2nd quarter of 2009 = 100)



Sources: Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances du Québec.

A more vigorous revival is anticipated in significant sectors for Québec

A revival of activity in significant sectors for Québec exports is forecast for 2011. The IEAQ projects that sectors of the US economy tied to Québec exports should grow by 5.6% in 2011 and 7.9% in 2012.

- The transportation sector as well as the intermediate products sector are expected to expand by around 10% in 2011. In addition, in 2012 Québec exports should benefit from a substantial rebound in housing starts and continued demand for transportation products. However, the strong Canadian dollar should continue to put a drag on export growth.

Index of US economic activity weighted by trade with Québec
(percentage change)

	Sector weights in the index	2010	2011	2012
Machinery and equipment	23.9	5.6	3.4	3.6
Consumer goods	20.5	3.7	3.6	1.7
Intermediate products	19.6	14.8	10.9	10.4
Transportation	19.1	– 5.3	9.7	17.0
Pulp and paper	10.2	– 3.7	– 0.9	– 1.1
Building materials	6.7	6.4	1.7	71.5
TOTAL	**100.0**	**4.3**	**5.6**	**7.9**

Sources: Institut de la statistique du Québec, IHS Global Insight and Ministère des Finances du Québec.

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[1] More detailed information on the composition of the IEAQ is available on page 30 of the *Update on Québec's Economic and Financial Situation*, published in the fall of 2009.

☐ A more competitive and constraining international environment

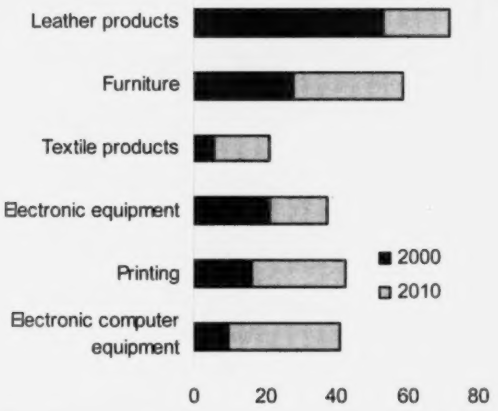
Québec's economy, like that of Canada, is confronted with a more constraining and competitive international environment.

In particular, Québec businesses must contend with the sharp appreciation of the Canadian dollar against the US dollar, the steep increase in oil prices during the 2000s and the presence of new competitors on domestic and foreign markets.

— For example, China has doubled its presence in the US market since 2000, winning large market shares in several sectors where Québec traditionally operated, such as furniture, electronic equipment and printing.

CHART B.43

China's share of the US market
(share of Chinese products in total US imports, per cent)

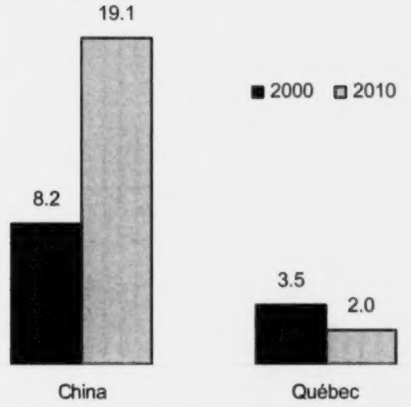


Source: U.S. Census Bureau.

CHART B.44

Share of US market

(share in total US imports, per cent)

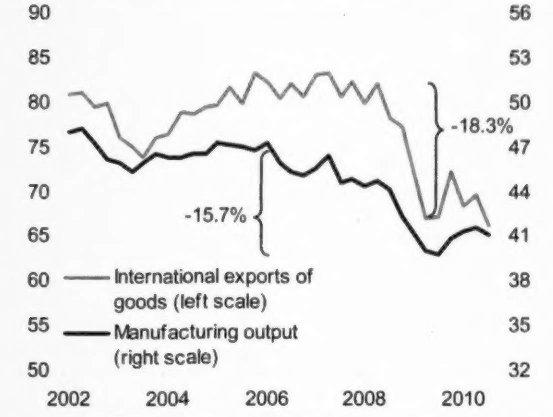


Sources: Institut de la statistique du Québec and IHS Global Insight.

Thus, neither Québec nor Canadian exports have recovered from the decline during the 2009 recession. The 18.3% drop in Québec exports is reflected in the 15.7% decline in manufacturing output from its peak in 2006. Similarly, Canada's exports slid 24.0% and its manufacturing output, 22.1%.

CHART B.45

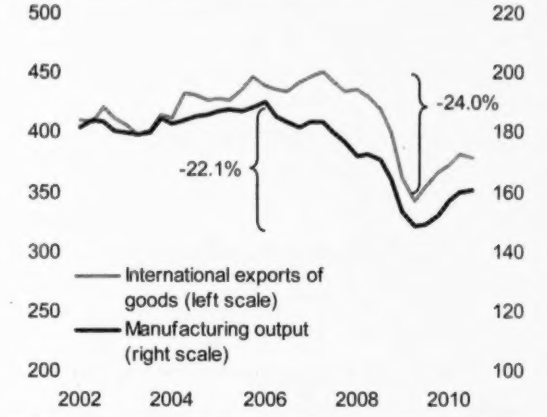
Québec's international exports and manufacturing output
(billions of dollars, in real terms)



Source: Institut de la statistique du Québec.

CHART B.46

Canada's international exports and manufacturing output
(billions of dollars, in real terms)



Source: Statistics Canada.

❑ Imports

Imports are expected to grow by 2.9% in 2011 and 2.2% in 2012.

The rebound in domestic demand in 2010 drove a 7.0% increase in Québec imports, stimulated by the strong Canadian dollar and resulting decrease in the cost of foreign products. Businesses took advantage of this situation to increase their investments in imported machinery and equipment.

— Machinery and equipment imports, which account for 16.2% of total imports, increased nearly three times faster (17.0%) than other imported goods (6.6%).

Imports will continue to grow in 2011 and 2012, albeit at a more moderate pace, reflecting Québec's good economic performance and the strong Canadian dollar. Machinery and equipment investments, particularly in the manufacturing sector, should contribute to improved productivity of Québec businesses, and that bodes well for future export growth.

TABLE B.5

Québec's imports of goods
(percentage change in real terms, unless otherwise indicated)

	Share in 2009[1]	2010
Crude oil	7.2	– 0.3
Primary metals	5.2	22.8
Chemical products	10.4	5.0
Automobiles and parts	14.2	16.6
Planes and parts	7.1	– 4.4
Machinery and equipment	16.2	17.0
Other consumer products	30.4	5.5
Other goods	9.2	1.1
International imports of goods	**100.0**	**8.3**
- Excluding machinery and equipment	83.8	6.6

[1] Per cent of total.
Source: Institut de la statistique du Québec.

❑ Net exports

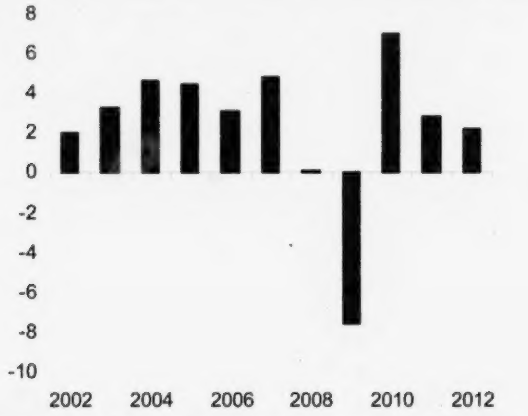
In 2010, net exports, which include the change in both exports and imports, shaved 4.2 percentage points off real GDP growth, in particular in response to the sharp increase in imports.

In 2011, the external sector will have almost no effect on economic growth owing to the upturn in exports and anticipated moderate growth of imports. In 2012, net exports' contribution to growth is expected to become positive, at 0.8 percentage point.

CHART B.47

Québec's total imports

(percentage change in real terms)

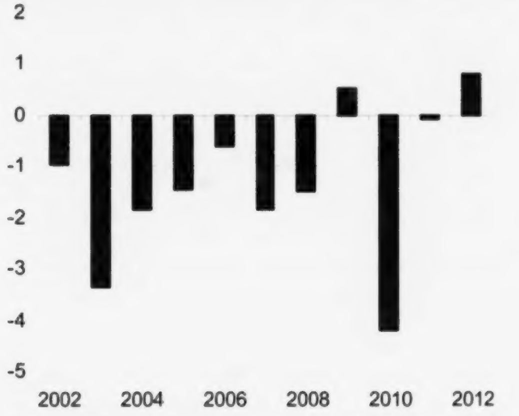


Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

CHART B.48

Contribution of net exports to Québec's economic growth

(in percentage points of real GDP)



Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

3.6 Change in nominal GDP

Nominal GDP, which includes the effects of price increases, will climb by 3.9% in 2011 after gaining an anticipated 4.4% in 2010. Nominal GDP growth will be fuelled by an increase in the price of goods and services[2] of 1.4% in 2010, 1.9% in 2011 and 2.1% in 2012.

The projected rise in nominal GDP over the next two years will increase the government's tax bases.

- Personal household income is expected to increase by 3.4% in 2010, 3.6% in 2011 and 3.3% in 2012.
- Nominal consumption will increase by 4.7% in 2010, 4.6% in 2011 and 4.1% in 2012.
- Corporate profits will rise by 10.5% in 2010, 6.5% in 2011 and 8.3% in 2012.

☐ Consumer price index

The consumer price index (CPI) will rise by 2.7% in 2011 and 2012, after going up 1.2% in 2010. The faster pace of CPI growth in 2011 and 2012 is partly due to the increase in the QST.

TABLE B.6

Change in GDP and price indexes
(percentage change)

	2010	2011	2012
Nominal GDP	4.4	3.9	4.4
Real GDP	3.0	2.0	2.2
GDP price index	1.4	1.9	2.1
Consumer price index	1.2	2.7	2.7

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

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[2] Price index for GDP components, i.e. consumption, governments' current expenditures, residential investment, business non-residential investment, exports and imports.

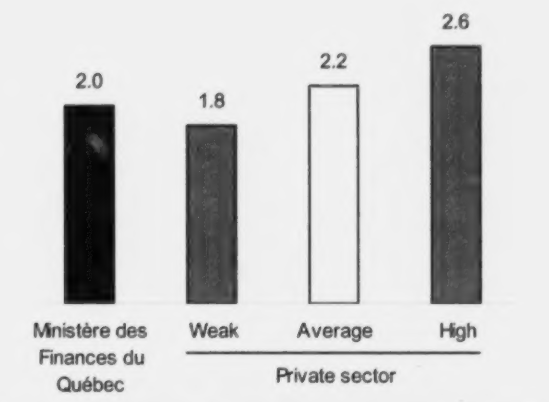
3.7 Comparison with private sector forecasts

The economic growth forecast of the Ministère des Finances du Québec for 2011 and 2012 is similar to the average of private sector forecasts.

- In 2011, the Ministère des Finances du Québec expects the economy to grow 2.0%, slightly less than the average 2.2% growth rate forecast by the private sector.
- For 2012, the Ministère des Finances du Québec projects 2.2% growth, compared with a 2.3% growth rate forecast by the private sector.

CHART B.49

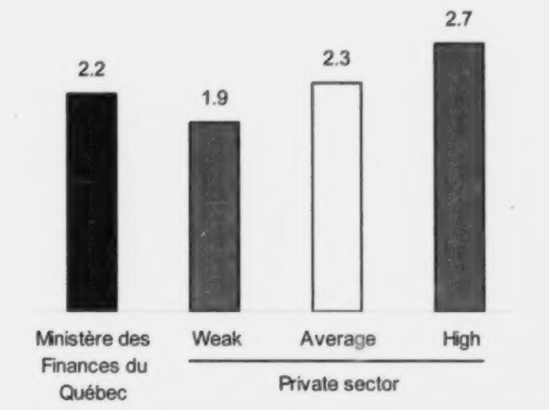
Economic growth in Québec in 2011
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of March 3, 2011, which includes the forecasts of 10 private sector institutions.

CHART B.50

Economic growth in Québec in 2012
(real GDP, percentage change)



Source: Ministère des Finances du Québec summary as of March 3, 2011, which includes the forecasts of 10 private sector institutions.

TABLE B.7

Québec's economic outlook

(percentage change, unless otherwise indicated)

	2010	2011	2012
Output			
Real GDP	3.0	2.0	2.2
Nominal GDP	4.4	3.9	4.4
Nominal GDP ($ billion)	317.1	329.6	344.1
Components of GDP (in real terms)			
Consumption	3.7	2.2	1.6
Current government expenditures	2.3	1.9	2.1
Residential investment	13.3	– 5.2	– 3.7
Non-residential business investment	8.1	10.4	6.1
Exports	– 0.3	3.4	4.4
Imports	7.0	2.9	2.2
Population and labour market			
Population (thousands)	7 907	7 980	8 042
Population aged 15 years and over (thousands)	6 517	6 575	6 628
Jobs (thousands)	3 915	3 971	4 011
Job creation (thousands)	66.7	55.4	40.5
Job creation (%)	1.7	1.4	1.0
Unemployment rate (%)	8.0	7.7	7.5
Employment rate (%)	60.2	60.5	60.6
Other economic indicators			
Nominal consumption	4.7	4.6	4.1
Housing starts (thousands of units)	51.4	45.1	41.0
Personal income	3.4	3.6	3.3
Wages and salaries	3.6	3.7	3.4
Corporate profits	10.5	6.5	8.3
Consumer prices	1.2	2.7	2.7
Per capita nominal GDP ($)	40 105	41 310	42 785
Per capita personal disposal income ($)	26 709	27 262	27 861

Sources: Statistics Canada, Institut de la statistique du Québec and Ministère des Finances du Québec.

3.8 Five-year economic outlook

With the recovery well under way, Québec is in a position to continue implementing its plan to restore fiscal balance announced in the 2009-2010 Budget.

Following strong growth in 2010, economic activity in Québec should continue expanding at an average rate of 2.2% from 2011 to 2013, which is slightly higher than the historical growth rate.[3]

☐ Comparison with private sector five-year forecasts

For the period 2011-2015, the forecast of the Ministère des Finances du Québec is slightly more moderate than that of the private sector in terms of the change in real GDP, prices and nominal GDP. On average, from 2011 to 2015:

- the projected 2.1% growth in real GDP is slightly below the private sector forecast of 2.3% growth;
- prices are expected to rise by 1.9%, compared with the private sector forecast of 2.0%.
- nominal GDP is expected to grow 4.1%, compared with the private sector forecast of 4.3%.

TABLE B.8

Québec's economic outlook – comparison with the private sector
(percentage change)

	2010	2011	2012	2013	2014	2015	Average 2011-2015
Real GDP							
Ministère des Finances du Québec	3.0	2.0	2.2	2.3	2.0	1.8	2.1
Average private sector forecast[1]	2.8	2.2	2.3	2.4	2.2	2.2	2.3
GDP price index							
Ministère des Finances du Québec	1.4	1.9	2.1	1.8	2.0	1.8	1.9
Average private sector forecast[1]	1.9	2.4	2.2	2.0	1.9	1.8	2.0
Nominal GDP							
Ministère des Finances du Québec	4.4	3.9	4.4	4.2	4.1	3.7	4.1
Average private sector forecast[1]	4.7	4.6	4.5	4.4	4.1	4.0	4.3

1 Ministère des Finances du Québec summary as of March 3, 2011, which includes the forecasts of 10 private sector institutions.

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[3] Real GDP grew at an average annual rate of 2.0% from 1982 to 2008.

☐ Medium-term growth slowed by demographics

Québec will face major demographic changes in the coming years. Starting in 2014, when fiscal balance is restored, Québec is expected to see a gradual decline in the population aged 15-64, resulting in a reduction in the working-age population.

— Without new policies to support population growth, employment and productivity, the Québec economy will expand at a slower pace over the next 15 years.

Several scenarios have been presented to illustrate the impact of coming changes.[4]

— The first scenario shows the change in projections if current trends do not improve. Under this scenario, real GDP growth would fall 1.2 percentage points from an average rate of 2.0% from 1982 to 2010 to 0.8% from 2021 to 2025.

— The second, and most-likely, scenario, takes into account the positive impacts of recent improvements, such as an increase in labour market participation and productivity growth. Under this scenario, real GDP growth would drop 0.6 percentage point from an average rate of 2.0% between 1982 and 2010 to 1.4% between 2021 and 2025.

— Under the third scenario, real GDP growth could be sustained at 2.0% on average from 2021 to 2025. However, this will require bold public policies relating to the birth rate, immigration, labour market participation and productivity.

TABLE B.9

Contribution of factors to Québec's economic growth
(average annual percentage change)

	Historical contribution	**2021-2025 horizon**		
	1982-2010	**No economic reaction**	**Anticipated scenario**	**Effort to keep growth at 2%**
Real GDP	2.0	0.8	1.4	2.0
Growth factors:				
- Potential labour pool[1]	0.6	−0.2	−0.2	0.1
- Employment rate[2]	0.6	0.2	0.5	0.7
- Productivity[3]	0.8	0.8	1.1	1.2

1 Population aged 15-64.
2 Total number of workers out of the population aged 15-64.
3 Real GDP per worker.
Sources: Institut de la statistique du Québec, Statistics Canada and Ministère des Finances du Québec.

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[4] For more details, refer to the scenarios presented in the 2010-2011 Budget.

4. QUÉBEC'S PUBLIC CAPITAL STOCK

Public capital stock[5] reflects the economic value of the total amount of physical assets in the public sector accumulated through annual government investments.

This section presents the past and projected trends in Québec's public capital stock and their impact on economic growth.

4.1 A critical factor for in Québec's prosperity

In recent years, the Québec government has increased its infrastructure investments. In 2007, it introduced the Québec Infrastructures Plan (QIP), which provides for the renewal of Québec's public infrastructures. As a result, the annual level of public investments in Québec as measured by Statistics Canada, which also includes municipal and federal government investments, has risen significantly from $6.7 billion in 2002 to $8.8 billion in 2006 and $14.5 billion in 2009.

This sustained investment is the main driver of the increase in Québec's public capital stock in recent years. The governments' decision to increase public investments contributed to reversing the downward trend in public capital stock as a share of GDP.

Several studies have shown the positive impact that public capital has on the economy. More public capital means better roads and more buildings and equipment for hospitals, universities and schools, infrastructure that is critical to public welfare.

Public capital also has a ripple effect on business capital by inciting companies to boost their investments and production. As a result, Québec workers have more capital in the form of machinery and equipment to increase their productivity.

Past and projected increases in public capital will result in GDP growth, thereby contributing to Québec's prosperity.

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[5] See the box on the following page for a definition of public capital stock.

Capital stock in the economy

Capital

Labour and capital are two primary inputs in the economy. Capital is defined as all fixed non-residential physical assets used to produce goods and services. There are three main types of capital:

- non-residential buildings (plants, offices, etc.);
- engineering works (roads, oil pipelines, water supply systems, etc.);
- machinery and equipment (trucks, machines, computers, etc.).

Investments and capital stock

Capital investment can be measured in two ways: either by annual **investment**, which is a flow, or by the level of **capital stock.** The value of capital stock at a given time is the sum of all past investments, less accumulated depreciation.

Real capital stock is calculated on the basis of current capital stock, taking into account price changes for investments. It is a way of measuring available capital that eliminates the price effect. Measurement of **capital intensity**, either by capital stock as a percentage of GDP or by per capita capital stock, is also used for a comparison over time.

Statistics Canada's Investment and Capital Stock Division produces annual statistics on the capital stock in Canada and the provinces in current and constant dollars.

Public capital and business capital

Capital is divided into public capital and business capital. **Business capital** is capital held by businesses for commercial purposes, such as machinery used for production, delivery trucks, office equipment, etc.

Public capital consists of all fixed non-residential physical assets that governments, public education services and health-care and social assistance services own for the purposes of offering public goods and services to the population. Public capital is divided into three main categories:

- buildings: schools, hospitals, government offices, etc.
- engineering works: roads, bridges, etc.
- machinery and equipment: motor vehicles, computers and software, medical equipment, etc.

Public capital is not only a critical source of capital for enabling public institutions to deliver services to the public, but it is also a major support for businesses as well as a contributor to economic growth.

- Public capital contributes to business productivity growth. For example, a business is more productive if it has access to a highway system that enables it to pick up supplies and deliver its products and services at low cost and in short and regular time frames. An education network that is well-equipped in capital stock contributes to a skilled labour force capable of adjusting to technological challenges.

Other measurements of capital stock

Non-residential capital stock as measured by Statistics Canada reflects the economic value of the assets comprising the capital stock. Statistics Canada measures capital stock using the perpetual inventory method.

The value of capital stock can also be measured according to:

- the replacement cost value;
- the net book value.

4.2 Québec's public capital stock

In 2010, total non-residential capital stock in Québec was valued at $294.8 billion. Public and private enterprises[6] held 68.5%, or $202.0 billion, of this capital. Public capital stock represented 31.5% of total capital stock and amounted to $92.8 billion.

Public capital stock breaks down as follows: 49.8% ($46.2 billion) engineering works such as roads, bridges and water supply systems, 39.2% ($36.4 billion) buildings such as schools and hospitals, and 11.1% ($10.3 billion) machinery and equipment such as vehicles and computer equipment.

TABLE B.10

Non-residential capital stock in Québec – 2010

	Public and private enterprises		Government and public sectors		Total	
	($ billion)	(% of total)	($ billion)	(% of total)	($ billion)	(% of total)
Buildings	62.4	30.9	36.4	39.2	98.8	33.5
Engineering works	80.9	40.1	46.2	49.8	127.1	43.1
Machinery and equipment	58.6	29.0	10.3	11.1	68.9	23.4
TOTAL	**202.0**	**100.0**	**92.8**	**100.0**	**294.8**	**100.0**

Note: Since figures are rounded, the sum of the amounts entered for each portfolio may not correspond to the total.
Source: Statistics Canada.

In 2010, Québec's public capital stock accounted for 21.8% of Canada's total public capital stock. The share of business capital stock in the Canadian total was 16.7%.

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[6] In this section, the term "enterprises" includes private enterprises and public enterprises such as Hydro-Québec, the SAQ and some public transit companies.

☐ Breakdown of Québec's public capital stock

Public capital stock in Québec is divided into three sectors:

- education, valued at $16.4 billion,[7] or 17.7% of public capital stock;
- health, valued at $11.6 billion,[7] or 12.5% of public capital stock;
- public administrations, valued at $64.8 billion, or 69.8% of public capital stock.

The three levels of government that hold public capital are the Québec government, the federal government and municipal governments.

The bulk of the health and education sectors' capital stock as well as a large share of municipalities' capital stock are financed by the Québec government.

TABLE B.11

Public capital stock in Québec – 2010

(billions of dollars, unless otherwise indicated)

	Public administrations	**Health**	**Education**	**Total**	**As a percentage of the total**
Québec government	29.4	11.6	16.4	57.4	61.9
Municipal governments	28.9	—	—	28.9	31.2
Federal government	6.4	—	—	6.4	6.9
Total	**64.8**	**11.6**	**16.4**	**92.8**	**100.0**
As percentage of the total	**69.8**	**12.5**	**17.7**	**100.0**	—

Note: Since figures are rounded, the sum of the amounts entered for each portfolio may not correspond to the total.

Source: Statistics Canada.

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[7] Values include the business component which, in Québec, represents a small share of these amounts.

❑ Québec Infrastructures Plan

The Québec government has increased its public infrastructure investments substantially since 2003. The pace of growth has been accelerating since the adoption of the Québec Infrastructures Plan[8] in 2007. The purpose of the Plan is to maintain, upgrade and replace assets so that future generations may benefit from adequate and modern infrastructures.

As the following table shows, the value of the Québec and municipal governments' capital stock rose by 45.4% between 2006[9] and 2010, from $40.1 billion to $58.4 billion. This growth is reflected in the health and education sectors, with increases of 43.6% and 21.7% respectively.

Two indicators of relative intensity are generally used to measure the role of public capital and ascertain benefits:

— real per capita public capital stock, which represents the average amount of public capital available to each citizen, grew by 16.7% between 2007 to 2010;

— the ratio of real public capital stock to GDP, which reflects the change in capital relative to the economic wealth created each year, grew by 14.2% over the same period.

TABLE B.12

Change in public capital stock in Québec between 2003 and 2010

(in billions of dollars, unless otherwise indicated)

	Nominal ($ current)				**Real (2002 dollars)**		**% of real GDP**
	Québec government and municipalities	**Health sector**	**Education sector**	**Total nominal[1]**	**Total real[1]**	**Per capita public capital stock[1]**	**Intensity of public capital[1]**
2002	31.9	6.3	10.8	54.4	54.4	7 312	22.5
2006	40.1	8.0	13.5	67.2	60.2	7 893	23.2
2010	58.4	11.6	16.4	92.8	72.9	9 213	26.5
% change 2003-2006	25.8	28.7	24.8	23.5	10.7	7.9	2.8
% change 2007-2010	45.4	43.6	21.7	38.1	20.9	16.7	14.2

1 Including the federal government.
Sources: Statistics Canada and Ministère des Finances du Québec.

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[8] Gouvernement du Québec, *Foundations for Success, Québec Infrastructures Plan*, 2007.

[9] 2006 is the reference year, as it is the last year before the adoption of the Québec Infrastructures Plan in 2007.

4.3 Trends in public capital stock in Québec and Canada

The recent public capital stock trend differs significantly from past trends, after moving to a new trajectory in the early 2000s. After reaching high levels in the mid-1970s, per capita public capital stock subsequently stagnated until the early 2000s, in both Québec and Canada, resulting in a decrease in the ratio of public capital stock to GDP.

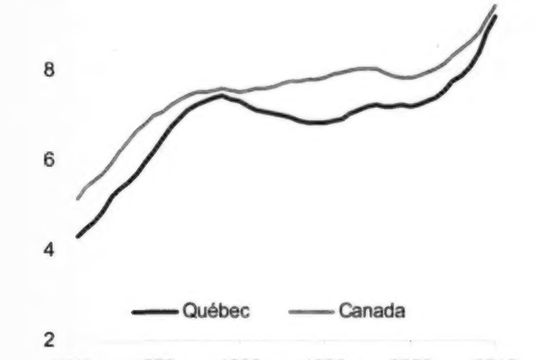
— In Québec, real public capital stock as a percentage of GDP fell from 35.6% in 1971 to 22.5% in 2002. In Canada, it dropped from 35.5% in 1971 and 21.6% in 2002.

After flattening out in the early 2000s, Québec's public capital stock-to-GDP ratio grew at a faster pace than that of Canada, due in particular to the Québec government's public investments. The ratio rose from 23.2% in 2006 to 26.5% in 2010, while Canada's ratio edged up from 21.5% in 2006 to 24.3% in 2010.

— Real per capita public capital stock in Québec resumed its growth trajectory, catching up to that of Canada. In 2010, it reached $9 213 in Québec and $9 446 in Canada.[10]

CHART B.51

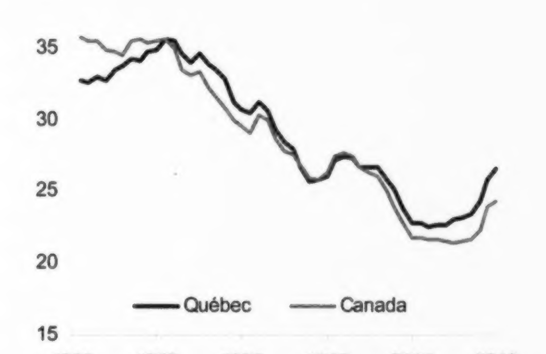
Real per capita public capital stock
(thousands of 2002 dollars)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.52

Intensity of public capital stock
(as a percentage of real GDP)



Sources: Statistics Canada and Ministère des Finances du Québec.

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[10] In 2002 dollars.

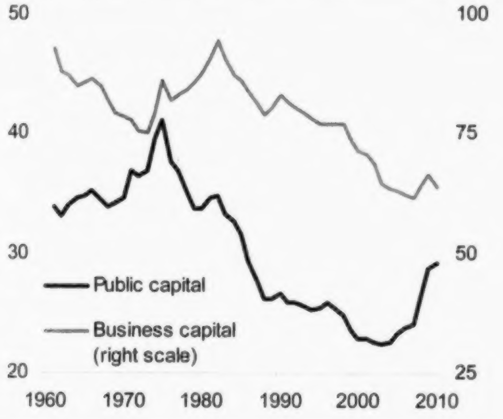
☐ Public capital stock and business capital stock

The following charts show the trends in public capital stock and business capital stock as a percentage of nominal GDP. These ratios followed similar trajectories in Québec and Canada.

— As a number of studies have shown,[11] these trends suggest that growth in public capital stock stimulates business capital investment.

CHART B.53

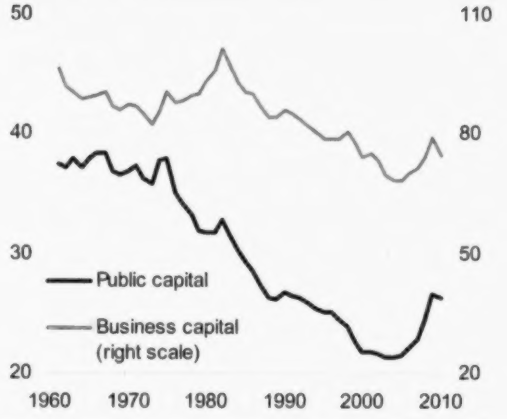
Intensity of nominal capital stock in Québec
(as a percentage of GDP)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.54

Intensity of nominal capital stock in Canada
(as a percentage of GDP)



Sources: Statistics Canada and Ministère des Finances du Québec.

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[11] The box on page B.67 discusses empirical studies on the economic impact of public capital.

❑ Projected trends in public capital stock

Considering the planned investments for the coming years, Québec's public capital stock should continue growing, rising in real terms from $72.9 billion[12] in 2010 to over $100 billion in the early 2020s. A large share of this growth will come from the Québec Infrastructures Plan.

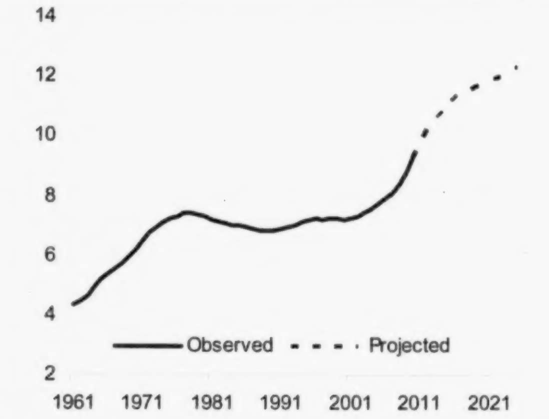
The two indicators used to measure the intensity of Québec's public capital stock, i.e. real per capita public capital stock and real public capital stock per unit of GDP, are thus expected to continue rising following government infrastructure investments.

— Real per capita public capital stock in Québec is expected to grow from $9 213 in 2010 to $12 000 in the early 2020s, an increase of over 30%.

— The public capital-to-GDP ratio should thus climb from 26.5% in 2010 to 30% by 2020 and remain stable thereafter. This means that capital stock will continue to grow at a comparable pace to GDP.

CHART B.55

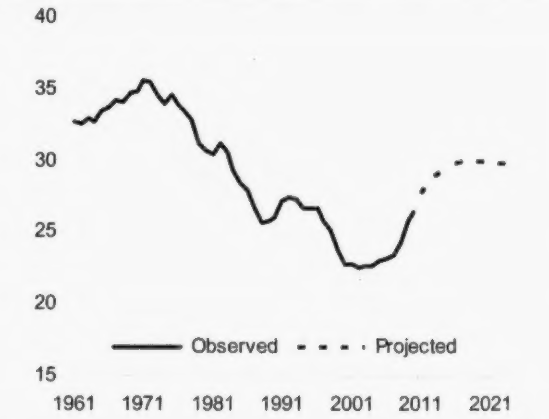
Real per capita public stock
(thousands of 2002 dollars)



Sources: Statistics Canada and Ministère des Finances du Québec.

CHART B.56

Intensity of public capital stock
(as a percentage of real GDP)



Sources: Statistics Canada and Ministère des Finances du Québec.

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[12] In 2002 dollars. This amount is equivalent to the $92.8 billion in 2010 mentioned at the beginning of this section.

4.4 Impacts of public investments on the economy

Growth in public investments has immediate economic impacts due to the government expenditures it generates.

In addition, by increasing public capital stock, public investment ultimately results in:

- a rise in business capital stock;
- increased productivity and output.

These combined effects generate growth in real GDP and greater public welfare.

☐ Impacts of public investments

For example, during the period 2009-2014, real public investments[13] in Québec will total $79.4 billion, for an average investment of $13.2 billion per year.

- This represents average annual growth of approximately 25%, or $2.6 billion, in investment flows, compared with the 2008 level.
- This acceleration in public investment will have a direct impact by raising the level of GDP by 0.9% per year on average.

In addition, the planned acceleration of public investment in 2009-2014 will result in an increase of over 30% in real public capital stock.

TABLE B.13

Impacts of public investments during the period 2009-2014

	Direct impact of increased investment	
	(%)	(millions of 2002 dollars)
Level of real GDP	0.9	2 600

---

[13] In 2002 dollars.

Impacts of higher public capital stock

Public capital stock also has a significant impact on business capital, productivity and, consequently, GDP. A number of international and Canadian studies have examined the effect of public capital on the economy. These studies estimate that, on average, a 1% increase in public capital stock ultimately results in:

- an increase of approximately 0.3% in the level of business capital stock;
- a rise of between 0.1% and 0.3% in the level of real GDP.

The Ministère des Finances du Québec arrived at similar estimates for the Québec economy. Based on 2010 data, constant growth of 1% in real public capital stock, or nearly $750 million, would ultimately result in:

- an increase of approximately $500 million in the level of business capital stock;
- a permanent impact of roughly $700 million per year on the level of real GDP.

TABLE B.14

Impacts of 1% growth in public capital stock

	(%)	(millions of 2002 dollars)
Public capital stock	1.00	750
Business capital stock	0.28	500
Level of real GDP	0.25	700

Empirical studies on the economic impact of public capital

A number of studies have examined the impact of public capital on economic development. The results differ based on country, methodology and the period and type of capital studied. However, they all point to the conclusion that public capital makes a significant contribution to productivity gains in an economy and is a source of economic growth. Below are the results of two recent Canadian studies.

Canada

A research paper published by Industry Canada[1] in 2009, on the impact of public capital on productivity, shows that:

- Public capital's contribution to productivity growth in Canada averaged 0.2 percentage points per year. That represents nearly 10.0% of productivity growth, which averaged 2.1% per year between 1962 and 2006.
- Public capital's contribution was higher between 1962 and 1973 and appears to have stagnated since 1980.

Ontario

A recent Ontario study[2] measured public capital's contribution to multifactor productivity growth.

The study concludes that a large share of multifactor productivity growth is contributed by public capital. The contribution varies by period, ranging between 11.0% for the period 1990-1999 and 21.5% for the period 2000-2008. Since 1980, public capital's contribution to multifactor productivity growth has averaged 16.4%.

Public capital's contribution to multifactor productivity in the business sector – Ontario

(per cent)

	1980-1989	1990-1999	2000-2008	1980-2008
Total multifactor productivity (MFP)[1]	0.76	1.46	1.07	1.10
Non public capital contribution[1]	0.60	1.30	0.84	0.92
Public capital contribution[1]	0.16	0.16	0.23	0.18
– Public capital contribution to MFP[2]	21.1	11.0	21.5	16.4

1 Average annual growth.

2 Ratio of public capital contribution to total multifactor productivity.

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[1] Wulong Gu and Ryan Macdonald, *The Impact of Public Infrastructure on Canadian Multifactor Productivity Estimates*, Industry Canada, Catalogue no. 15-206-x, no. 21, 2009.

[2] Conference Board of Canada, *The Economic Impact of Public Infrastructure in Ontario*, 2009.

The impact of public capital on wealth creation

Public capital contributes to productivity gains. An effective public capital structure contributes to labour productivity growth, fostering employment and new investments. For example, public capital:

- in the health sector contributes to an increase in public and workers' welfare;
- in the education sector improves the quality of worker training, research and innovation;
- in transportation infrastructure facilitates commerce and trade;
- in municipal infrastructures makes it easier to attract businesses.

An optimum level of public capital helps an economy achieve its maximum potential. However, the optimum level of capital stock depends on numerous parameters. For example:

- the stage in an economy's development: if an economy is poor in public infrastructure, public capital investments will have a major impact on the economy. A more mature economy that has substantial public capital will be less sensitive to an injection of new units of public capital;
- the size of an economy: the same public capital investment can have a different impact depending on the size of the economy. For example, the same new highway will have a greater impact on an economy that is well-equipped with trucks and cars;
- environmental constraints: a region with an abundance of watercourses will realize bigger gains from bridges that will improve its road network;
- the endowment of resources to produce or maintain the capital stock (raw materials, labour): building and maintaining public works often requires skilled labour and access to resources. Ready access to labour and resources fosters public investment;
- access to capital: public investment often entails borrowings. Readily available capital facilitates the planning and construction of public works;
- comparative advantage of projects: while myriad public capital investment projects may be proposed to governments, the latter have limited means to implement them. It is therefore critical that the comparative advantages each project be ascertained.

Section C

The Government's Financial Framework

INTRODUCTION C.3

1. STAYING THE COURSE ON RESTORING BUDGET BALANCE IN 2013-2014 .... C.5
    - 1.1 Change in the budgetary balance C.5
    - 1.2 Adjustments to the financial framework C.7

2. UPDATING OF THE FINANCIAL FRAMEWORK C.11
    - 2.1 Budgetary revenue C.11
        - 2.1.1 Own-source revenue excluding government enterprises C.12
        - 2.1.2 Revenue from government enterprises C.15
        - 2.1.3 Revenues from federal transfers C.17
    - 2.2 Budgetary expenditure C.20
        - 2.2.1 Adjustments to program spending C.21
        - 2.2.2 Efforts on the part of all government departments C.24
        - 2.2.3 Weight of government spending in the economy C.27
        - 2.2.4 Consolidated expenditure C.28
        - 2.2.5 Debt service C.33

3. CONSOLIDATED BUDGETARY FORECASTS FOR REVENUE AND EXPENDITURE C.35
    - 3.1 Change in consolidated revenue and expenditure from 2010-2011 to 2012-2013 .... C.35
    - 3.2 Consolidated entities C.40
        - 3.2.1 Special funds C.40
        - 3.2.2 Non-budget-funded bodies C.43
        - 3.2.3 The health and social services and education networks C.45
        - 3.2.4 Generations Fund C.47

4. GOVERNMENT INVESTMENTS C.49

4.1 The Québec Infrastructures Plan C.49

4.2 Investments by Québec government departments and organizations C.50

4.3 Investments by government enterprises C.51

4.4 Public investments in the economy C.51

5. CONSOLIDATED NET FINANCIAL REQUIREMENTS C.53

6. CONSOLIDATED NON-BUDGETARY TRANSACTIONS C.55

APPENDIX 1: DETAILS OF THE 2010-2015 QUÉBEC INFRASTRUCTURES PLAN C.61

APPENDIX 2: INVESTMENT PROJECTS BY GOVERNMENT ENTERPRISES C.65

APPENDIX 3: RESTATEMENT OF THE FINANCIAL FRAMEWORK OF THE 2010-2011 BUDGET TO TAKE INTO ACCOUNT THE CREATION OF FORT AND FRAF C.69

INTRODUCTION

This section of the Budget Plan presents the preliminary results for fiscal 2010-2011 and the government's budgetary and financial stance for 2011-2012 and 2012-2013.[1]

The information provided concerns:

- consolidated financial and budgetary transactions for the period from 2010-2011 to 2012-2013, including the impact of the various measures announced in the present budget;
- the change in budgetary revenue and expenditure, adjustments made since last year's budget, and particularly the following:
  - consolidated expenditure;
  - the results of consolidated entities, including special funds, non-budget-funded bodies and the health and social services and education networks;
- government investments;
- the government's consolidated net financial requirements and non-budgetary transactions.

The financial framework takes into account the creation of new special funds, namely, the Land Transportation Network Fund (FORT),[2,3] the Fund to Finance Health and Social Services Institutions (FINESSS)[2] and the Tax Adminstration Fund (FRAF),[3,4] whose purpose is to fund the Agence du revenue du Québec.[4] In addition, the *Act respecting the Agence du revenu du Québec* stipulates that from now on the allowance for doubtful accounts will be applied against budgetary revenue, whereas previously it was recorded under program spending.

The five-year financial framework of the 2011-2012 Budget, or the five year financial projections up to 2015-2016, is presented in Section A.

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[1] Throughout this section, the budgetary data for 2010-2011 are preliminary, those for 2011-2012 and 2012-2013 are forecasts and those for subsequent years are projections.

[2] Bill 100 entitled *An Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014* (2010, c. 20).

[3] This budget presents the 2010-2011 data in accordance with the 2011-2012 structure. Appendix 3 presents restatements in respect of the 2010-2011 Budget's financial framework in order to take into account the creation of these special funds. Their creation does not affect the budgetary balance.

[4] Bill 107 entitled *An Act respecting the Agence du revenu du Québec* (R.S.Q., c. A-7.003).

1. STAYING THE COURSE ON RESTORING BUDGET BALANCE IN 2013-2014

1.1 Change in the budgetary balance

Overall, the government's budgetary situation remains the same as that presented in last year's budget. In particular, the total of projected deficits from 2009-2010 to 2013-2014 stands at $12.7 billion and is the same as forecast in March 2010.

The budgetary balance within the meaning of the *Balanced Budget Act* will be in deficit by $4.2 billion for 2010-2011, $3.8 billion for 2011-2012 and $1.5 billion for 2012-2013. The government is staying the course towards a balanced budget in 2013-2014.

— The deficit will be reduced through the measures contained in the plan to restore fiscal balance, primarily spending control.

In addition, to help face unforeseen events, contingency reserves totalling $800 million from 2010-2011 to 2012-2013 are included in the deficits.

TABLE C.1

Summary of adjusted budgetary transactions – 2011-2012 Budget
(millions of dollars)

	2010-2011	2011-2012	2012-2013
BUDGETARY TRANSACTIONS			
Budgetary revenue	**62 376**	**65 375**	**69 087**
% change	*5.2*	*4.8*	*5.7*
Program spending	– 59 819	– 61 284	– 62 113
% change	*2.4*	*2.4*	*1.4*
Debt service	– 6 934	– 7 794	– 8 646
Total budgetary expenditure	**– 66 753**	**– 69 078**	**– 70 759**
% change	*3.5*	*3.5*	*2.4*
Net results of consolidated entities	**1 209**	**1 143**	**1 119**
Contingency reserve	– 300	– 300	– 200
Measures to be identified	—	—	300
DEFICIT	**– 3 468**	**– 2 860**	**– 453**
BALANCED BUDGET ACT			
Deposits of dedicated revenues in the Generations Fund	– 732	– 940	– 1 047
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 200**	**– 3 800**	**– 1 500**
As a % of GDP	*– 1.3*	*– 1.2*	*– 0.4*

☐ Spending control

In 2011-2012, the government will continue its rigorous management of program spending by limiting growth in such spending to 2.4%. In 2012-2013, program spending growth will stand at 1.4%.

- — In the 2010-2011 Budget, the government undertook to assume, by 2013-2014, 62% of the total effort identified in the plan to restore fiscal balance.
- — Over the past year, all of the spending measures needed to deliver on that commitment were identified. In addition, the $1.4-billion effort planned for 2010-2011 will be achieved.

The government's reporting entity includes not only program spending but also public spending as a whole, i.e. consolidated expenditure. Additional information on consolidated expenditure is given in sections 2.2.4 and 3.1.

☐ Contingency reserve

When the 2010-2011 Budget was tabled, the government included a contingency reserve of $300 million in 2010-2011 in its financial framework to guard against contingencies arising in particular from economic uncertainty. New reserves of $300 million in 2011-2012 and $200 million in 2012-2013 were added in fall 2010.

- — The 2011-2012 Budget maintains these contingency reserves, which total $800 million over these three years.

TABLE C.2

Contingency reserves included in the financial framework
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014
2010-2011 Budget	– 300	—	—	—
Adjustments	—	– 300	– 200	—
TOTAL – 2011-2012 BUDGET	**– 300**	**– 300**	**– 200**	—

1.2 Adjustments to the financial framework

The table below presents the main factors explaining the adjustments to the deficits for the years 2010-2011 to 2012-2013 since the last budget. Overall, the adjustments to budgetary expenditure are offset by additional revenue generated by the good economic performance.

For 2010-2011, the budgetary deficit will be $4.2 billion, an improvement of $306 million compared with last year's budget.

The budgetary deficits for subsequent years are revised upward by $900 million in 2011-2012 and $300 million in 2012-2013, to $3.8 billion and $1.5 billion respectively.

TABLE C.3

Total adjustments since the 2010-2011 Budget
(millions of dollars)

	2010-2011	2011-2012	2012-2013
BALANCE IN THE 2010-2011 BUDGET	**– 4 506**	**– 2 900**	**– 1 200**
Own-source revenue excluding government enterprises	569	800	791
Government enterprises	223	53	28
Federal transfers	126	358	271
Total budgetary revenue	**918**	**1 211**	**1 090**
Program spending			
- New actuarial valuations of the retirement plans	– 356	– 357	– 358
- Increase in the allowance for doubtful accounts	– 402	– 352	– 352
- Costs related to pay equity	—	– 217	– 217
- Agreement with child-care- service providers	—	– 137	– 143
- Measures in the 2011-2012 Budget	—	– 120	– 118
- Other adjustments	—	– 159	– 37
Total program spending	**– 758**	**– 1 342**	**– 1 225**
Debt service	46	38	103
Total budgetary expenditure	**– 712**	**– 1 304**	**– 1 122**
Consolidated entities[1]	**100**	**– 196**	**– 44**
Contingency reserve	—	– 300	– 200
Reduction in efforts to be identified	—	– 311	– 24
Total adjustments to the budgetary balance	**306**	**– 900**	**– 300**
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 200**	**– 3 800**	**– 1 500**

[1] Excluding the Generations Fund.

❑ Adjustments to the budgetary balance in 2010-2011

The budgetary balance within the meaning of the *Balanced Budget Act* for 2010-2011 is in deficit by $4.2 billion, an improvement of $306 million compared with the March 2010 Budget.

— This result is mainly attributable to the upward adjustments to budgetary revenue that are greater than those to budgetary expenditure.

In addition, a $300-million contingency reserve is being maintained to deal with any additional shortfalls that could result from the change in revenue and expenditure at the end of the year.

TABLE C.4

Summary of budgetary transactions in 2010-2011

(millions of dollars)

	2010-2011 Budget[1]	Adjustments	Reclassification[2]	2011-2012 Budget
BUDGETARY TRANSACTIONS				
Own-source revenue	42 543	569	– 900	42 212
Government enterprises	4 490	223		4 713
Federal transfers	15 325	126		15 451
Total budgetary revenue	**62 358**	**918**	**– 900**	**62 376**
Program spending	– 59 961	– 758	900	– 59 819
Debt service	– 6 980	46		– 6 934
Total budgetary expenditure	**– 66 941**	**– 712**	**900**	**– 66 753**
Net results of consolidated entities	**1 269**	**– 60**		**1 209**
Contingency reserve	– 300	—		– 300
DEFICIT	**– 3 614**	**146**	**—**	**– 3 468**
BALANCED BUDGET ACT				
Deposits of dedicated revenues in the Generations Fund	– 892	160		– 732
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 506**	**306**	**—**	**– 4 200**
As a % of GDP	*– 1.4*			*– 1.3*

[1] The data for the 2010-2011 Budget have been restated to reflect the creation of special funds since that budget was tabled. Appendix 3 gives the details of these restatements.

[2] The *Act respecting the Agence du revenu du Québec* stipulates that from now on the allowance for doubtful accounts will be applied against budgetary revenue, whereas previously it was recorded under program spending.

Adjustment to budgetary revenue

The government's budgetary revenue for 2010-2011 has been revised upward by $918 million. These results are due to:

- a positive adjustment of $569 million in own-source revenue excluding government enterprises, of which $290 million is from personal income tax;
- a $223-million increase in revenue from government enterprises;
- a $126-million rise in federal transfer revenues.

Adjustment to budgetary expenditure

The government's budgetary expenditure for 2010-2011 has been revised upward by $712 million. These results can be explained by:

- a $758-million upward adjustment of the program spending objective due to:
  - the $356-million impact of the new actuarial valuations of the retirement plans;
  - a $402-million increase in the allowance for doubtful accounts;
- a $46-million decrease in debt service.

Other elements

The $100-million improvement in the results of consolidated entities, excluding deposits of dedicated revenues in the Generations Fund, has also helped to bring down the deficit.

☐ 2011-2012: a budgetary deficit of $3.8 billion

The budgetary deficit for 2011-2012 will amount to $3.8 billion, an increase of $900 million compared with last year's budget. This increase stems from:

- the adjustments to budgetary revenue that are $93 million higher than the adjustments to budgetary expenditure. In this regard:
  - budgetary revenue is being revised upward by $1 211 million;
  - budgetary expenditure is being increased by $1 304 million, mainly because of the recurrence of overruns recognized in 2010-2011, coupled with certain wage costs and the impact of the budget measures;
- the inclusion of a $300-million contingency reserve in the government's financial framework;
- the reduction of $311 million in efforts to be identified under the plan to restore fiscal balance;
- the $196-million decrease in the results of consolidated entities excluding deposits of dedicated revenues in the Generations Fund.

☐ 2012-2013: a budgetary deficit of $1.5 billion

The budgetary deficit for 2012-2013 will amount to $1.5 billion, an increase of $300 million compared with March 2010. This revision stems essentially from:

- the recurrence of adjustments to revenue and expenditure;
- the creation of a $200-million contingency reserve.

2. UPDATING OF THE FINANCIAL FRAMEWORK

This chapter presents the updated budgetary revenue and expenditure for 2010-2011 to 2012-2013 and the principal adjustments made since the last budget.

2.1 Budgetary revenue

The government's budgetary revenue is expected to total $65.4 billion in 2011-2012, i.e. $50.3 billion in own-source revenue and $15.0 billion in federal transfers. Budgetary revenue should grow by 4.8% in 2011-2012 and 5.7% in 2012-2013.

The presentation of budgetary revenue includes the measures contained in the plan to restore fiscal balance,[5] as well as the implementation of the special funds FORT and FRAF.

TABLE C.5

Consolidated revenue fund
Change in budgetary revenue
(millions of dollars)

	2010-2011 Budget[1]		2011-2012 Budget		
	2010-2011	Adjustments	2010-2011	2011-2012	2012-2013
Own-source revenue					
Own-source revenue excluding government enterprises – according to the 2011-2012 Budget structure	42 543	569	43 112	46 396	49 803
% change	*6.7*		*7.4*	*7.6*	*7.3*
Reclassification of the allowance for doubtful accounts against revenue	– 900	—	– 900	– 850	– 850
Own-source revenue excluding government enterprises	41 643	569	42 212	45 546	48 953
% change	*6.9*		*7.5*	*7.9*	*7.5*
Government enterprises	4 490	223	4 713	4 790	4 930
% change	*– 2.4*		*– 3.4*	*1.6*	*2.9*
Total	**46 133**	**792**	**46 925**	**50 336**	**53 883**
% change	***5.9***		***6.3***	***7.3***	***7.0***
Federal transfers	15 325	126	15 451	15 039	15 204
% change	*0.6*		*1.9*	*– 2.7*	*1.1*
Budgetary revenue	**61 458**	**918**	**62 376**	**65 375**	**69 087**
% change	***4.5***		***5.2***	***4.8***	***5.7***

1 The data for the 2010-2011 Budget have been restated to reflect the creation of special funds since that budget was tabled. Appendix 3 gives the details of these restatements.

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[5] Appendix 1 of Section A shows the change in budgetary revenue excluding the measures contained in the plan to restore fiscal balance.

2.1.1 Own-source revenue excluding government enterprises

☐ Upward adjustments in 2010-2011

Preliminary results for fiscal 2010-2011 show that own-source revenue, excluding government enterprises, is adjusted upward by $569 million compared with the March 2010 Budget and posts an increase of 7.5% compared with the previous year.

■ Adjustments to own-source revenue by source

Revenue from personal income tax is revised upward by $290 million in 2010-2011. This revision can be explained essentially by the following factors:

— the better employment performance, which resulted notably in stronger-than-anticipated growth in salaries and wages in 2010;

— the recurrence of revenue higher than intially forecast for income tax payable in respect of 2009. In addition, tax instalments in respect of 2010, which are based on income tax payable in 2009, have been revised upward.

Contributions to the health services fund are adjusted upward by $20 million, reflecting the positive revision of salaries and wages in 2010 and monitoring of tax receipts.

Compared with the 2010-2011 Budget, revenue from corporate taxes is revised downward by $130 million, bringing forecast annual growth to 0.9% in 2010-2011. This revision stems in particular from:

— the downward adjustment in corporate profits in 2010;

— the higher-than-expected refunds observed during the year because of past losses attributable to the 2009 recession, which put a greater-than-anticipated strain on revenue.

Consumption tax revenue is adjusted upward by $249 million in 2010-2011. This adjustment is due in particular to the following factors:

- revenue from the Québec sales tax (QST) was revised upward because of stronger-than-forecast household consumption in 2010 and a higher-than-expected number of housing starts;
- revenue from the specific tax on tobacco products is revised upward by $120 million owing to the increase in the number of cigarettes sold legally following the stepping-up of efforts to combat the illegal trade of tobacco products.

Other revenue is adjusted upward by $140 million. This increase stems notably from higher-than-forecast revenue from natural resources and fines, forfeitures and recoveries.

TABLE C.6

Consolidated revenue fund
Change in own-source revenue excluding government enterprises

(millions of dollars)

	2010-2011 Budget[1]		2011-2012 Budget		
	2010-2011	**Adjustments**	**2010-2011**	**2011-2012**	**2012-2013**
Personal income tax	17 726	290	18 016	18 786	19 482
% change	*6.7*		*9.5*	*4.3*	*3.7*
Health services fund	5 843	20	5 863	6 047	6 272
% change	*3.5*		*1.2*	*3.1*	*3.7*
Corporate taxes	3 763	– 130	3 633	3 885	4 356
% change	*8.0*		*0.9*	*6.9*	*12.1*
Consumption taxes	12 603	249	12 852	14 897	16 754
% change	*8.4*		*10.9*	*15.9*	*12.5*
Other revenue	1 708	140	1 848	1 931	2 089
% change	*7.2*		*2.2*	*4.5*	*8.2*
Own-source revenue excluding government enterprises	**41 643**	**569**	**42 212**	**45 546**	**48 953**
% change	**6.9**		**7.5**	**7.9**	**7.5**

[1] The data for the 2010-2011 Budget have been restated to reflect the creation of special funds since that budget was tabled. Appendix 3 gives the details of these restatements.

☐ Change in revenue by source

In 2011-2012 and 2012-2013, own-source revenue, excluding that from government enterprises, will increase by 7.9% and 7.5% respectively. This growth, which is above that of the economy, stems from the impact of the implementation of the revenue measures provided for in the plan to restore fiscal balance.

In particular, the increases in the QST and the additional tax recovery efforts of the Agence du revenu du Québec will contribute to this impact.

Personal income tax, the main source of government revenue, is expected to increase by 4.3% in 2011-2012 and 3.7% in 2012-2013, to $18.8 billion and $19.5 billion, respectively.

- These changes are compatible with the growth in personal income of 3.6% in 2011 and 3.3% in 2012, taking into account the progressive nature of the tax system.

Contributions to the health services fund should climb by 3.1% in 2011-2012 and 3.7% in 2012-2013, rates similar to the growth in salaries and wages.

Revenue from corporate taxes will show a sustained increase of 6.9% and 12.1% in 2011-2012 and 2012-2013 respectively, on account of the following factors:

- the resumption in the growth of profits will translate into an increase in taxable income and revenue from corporate taxes;
- however, use of the losses accumulated by businesses during the recession will continue to attenuate growth in revenue in 2011-2012.

In 2011-2012 and 2012-2013, revenue from consumption taxes should show an increase of 15.9% and 12.5% respectively. This growth reflects:

- the growth of 4.6% and 4.1% in household consumption in 2011 and 2012 respectively;
- the increase of one percentage point in the QST on January 1, 2011 and January 1, 2012.

☐ Change in revenue compatible with that of the economy

Overall, growth in own-source revenue, excluding government enterprises, is expected to be compatible with nominal economic growth for the next two years, leaving aside the financial impact of fiscal measures and the plan to restore fiscal balance.[6]

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[6] See the financial framework excluding the revenue measures of the plan to restore fiscal balance presented in Appendix 2 of Section A.

2.1.2 Revenue from government enterprises

☐ Results for 2010-2011

Revenue from government enterprises is adjusted upward by $223 million for 2010-2011. Hydro-Québec et the Société des alcools du Québec raised their forecast by $15 million and $5 million respectively, while the forecast for Loto-Québec was revised downward.

Revenue from Loto-Québec is revised downward by $45 million, mainly on account of the decline in revenue attributable to video lottery terminals and the renovation work under way at the Casino de Montréal, as well as the costs related to the start-up of the Espacejeux website.

Revenue from other government enterprises was re-evaluated upward mainly because of a $249-million upward adjustment of the results of the Société générale de financement du Québec. This increase is due to the higher-than-anticipated net gains on realized investments and higher-than-anticipated gains on interests.

TABLE C.7

Consolidated revenue fund
Change in revenue from government enterprises
(millions of dollars)

	2010-2011 Budget		2011-2012 Budget		
	2010-2011	**Adjustments**	**2010-2011**	**2011-2012**	**2012-2013**
Hydro-Québec	2 425	15	2 440	2 575	2 625
Loto-Québec	1 282	– 45	1 237	1 246	1 267
Société des alcools du Québec	882	5	887	940	973
Other	– 99	248	149	29	65
Revenue from government enterprises	**4 490**	**223**	**4 713**	**4 790**	**4 930**
% change	***–2.4***		***–3.4***	***1.6***	***2.9***

☐ Outlook for 2011-2012 and 2012-2013

Revenue from government enterprises for 2011-2012 and 2012-2013 will amount to $4 790 million and $4 930 million respectively. Anticipated revenue from Hydro-Québec, Loto-Québec and the Société des alcools du Québec will show a slight increase for these two years. The sustained effort to reduce spending and improve productivity will contribute to this result.

2.1.3 Revenues from federal transfers

In 2010-2011, federal transfer revenues should reach $15.5 billion, or $126 million more than forecast in the March 2010 Budget.

Positive revisions of $45 million in health transfers and $23 million in transfers for post-secondary education and other social programs are forecast particularly because of the economic situation which reduced the value of the special Québec abatement that is subtracted from these transfers. The revision of federal transfers is also due to an $88-million increase in the offset payment for student financial assistance (see box on page C.19).

For 2011-2012 and 2012-2013, federal transfer revenues are expected to amount to $15.0 billion and $15.2 billion respectively.

TABLE C.8

Consolidated revenue fund
Change in federal transfer revenues
(millions of dollars)

	2010-2011 Budget		2011-2012 Budget		
	2010-2011	**Adjustments**	**2010-2011**	**2011-2012**	**2012-2013**
Equalization	8 552	—	8 552	7 639	8 040
% change	2.4		2.4	–10.7	5.2
Protection payment				545	
% change				*N/A*	
Health transfers	4 264	45	4 309	4 516	4 817
% change	2.8		3.9	4.8	6.7
Transfers for post-secondary education and other social programs	1 432	23	1 455	1 475	1 504
% change	–2.0		–0.4	1.4	2.0
Other programs	1 077	58	1 135	864	843
% change	–14.9		–5.2	–23.9	–2.4
Federal transfers	**15 325**	**126**	**15 451**	**15 039**	**15 204**
% change	***0.6***		***1.9***	***–2.7***	***1.1***

Federal transfers are expected to decline by 2.7% in 2011-2012 due to a 10.7% decrease in equalization, stemming mainly from Québec's relatively good economic performance during the 2009 recession. This delay results from the smoothing mechanism used by the federal government to determine equalization payments (three-year moving average delayed by two years).

TABLE C.9

Smoothing mechanism used by the federal government to determine equalization payments

2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
25%	25%	50%	→	Payments		
	25%	25%	50%	→	Payments	
		25%	25%	50%	→	Payments

This substantial drop in equalization payments is partly offset by a "protection payment" of $545 million in 2011-2012. This payment was announced at the meeting of Finance Ministers in December 2010 and corresponds to the decrease, between 2010-2011 and 2011-2012, of total main federal transfers in each province (Canada Health Transfer (CHT), Canada Social Transfer (CST) and equalization). Three other provinces also qualified for a protection payment. It should be noted that Québec had indicated in Section E of the *2010-2011 Budget Plan*, that the providing of such protection payments "...should be made systematic so that Québec can qualify for them if, for example, its federal transfer revenues decline from one year to the next, as is currently forecast in 2011-2012."

As for revenue from other programs, the 23.9% decrease expected in 2011-2012 can be explained in particular by the end of federal compensation in respect of the elimination of the tax on capital and the anticipated $40-million decrease in the offset payment for student financial assistance.

Federal transfers should increase by 1.1% in 2012-2013. Growth in the major transfers will be slowed by the non-recurrence, in 2012-2013, of the protection payment that will be made in 2011-2012.

Offset payment for student financial assistance

Since the 1960s, Québec has exercised the right to opt out of federal student financial assistance programs. Québec offers its own program and receives, in this regard, financial compensation from the federal government under the *Canada Student Financial Assistance Act*.

This offset payment corresponds to the estimated cost, determined by the federal government, of applying its own programs in Québec if they were offered there instead of the program offered by Québec. In concrete terms, it corresponds to the average cost of federal programs for a person aged 18 to 24 in participating provinces, multiplied by the number of people aged 18 to 24 in Québec. Therefore, there is no link between the offset payment received from the federal government and spending by Québec on student financial assistance.

In February 2011, the federal government announced that Québec would receive an offset payment of $275 million for the 2009-2010 school year. However, $180 million in revenue had been recorded in the 2009-2010 Public Accounts in this regard. Consequently, the $318 million in revenue forecast in 2010-2011 includes a major adjustment for previous years. This revenue has been revised by $88 million compared with the forecast in the March 2010 Budget. For 2011-2012 and subsequent years, offset payments are expected to be in the order of $280 million annually.

The following table shows the offset and Millennium Scholarship payments received from the federal government since 1998, as well as Québec's spending on student financial assistance. It can be seen that Québec has invested, on average, more than twice as much as the federal government would have done had its financial assistance programs been offered in Québec.

Amounts received and spent by Québec in respect of student financial assistance

	Offset payments	Millennium Scholarships (MS)	Total	Spending by Québec (including MS)	Ratio[1]
	$ million			$ million	%
1998-99	159.1		159.1	394.8	248.1
1999-00	124.8	63.8	188.5	394.1	209.0
2000-01	137.5	80.3	217.7	380.8	174.8
2001-02	143.2	75.7	219.0	368.0	168.1
2002-03	128.9	73.4	202.2	353.0	174.5
2003-04	158.3	71.7	229.9	382.8	166.4
2004-05	150.8	69.8	220.6	318.1	144.2
2005-06	159.5	73.6	233.1	395.0	169.5
2006-07	116.3	90.9	207.2	457.0	220.6
2007-08	112.0	77.2	189.2	497.3	262.8
2008-09	138.5	80.0	218.5	485.5	222.2
2009-10[2]	180.1	0.2	180.3	534.6	296.5
2010-11	317.6		317.6	531.9	167.5

[1] Spending by Québec divided by total federal transfers received.

[2] The replacement of the Millennium Scholarships by the Canada Student Grants Program (CSGP) on August 1, 2009 explains the increase in offset payments since 2009-2010.

Source: Québec public accounts and 2010-2011 Expenditure Budget.

This table also shows that despite major fluctuations in federal offset payments from one year to the next, Québec has always maintained a high level of spending on student financial assistance. For example, between 2005-2006 and 2006-2007, spending by Québec on student financial assistance increased even though the offset payment from the federal government fell by $43 million. Lastly, it should be noted that the portion of student financial assistance offered under the Québec program in the form of non-repayable bursaries (rather than repayable loans) is greater than that offered under the federal government programs.

2.2 Budgetary expenditure

The government's budgetary expenditure, which includes program spending and debt service, is expected to reach $69.1 billion in 2011-2012, i.e. $61.3 billion for program spending and $7.8 billion for debt service. Program spending should increase by 2.4% in 2011-2012 and 1.4% in 2012-2013.

TABLEAU C.10

Consolidated revenue fund
Change in budgetary expenditure

(millions of dollars)

	2010-2011 Budget[1]			Budget 2011-2012		
	2010-2011	**Adjustments**	**Reclassification[2]**	**2010-2011**	**2011-2012**	**2012-2013**
Program spending	59 961	758	– 900	59 819	61 284	62 113
% change	2.5			*2.4*	*2.4*	*1.4*
Debt service	6 980	– 46		6 934	7 794	8 646
% change	*13.4*			*13.4*	*12.4*	*10.9*
Budgetary expenditure	**66 941**	**712**	**– 900**	**66 753**	**69 078**	**70 759**
% change	***3.6***			***3.5***	***3.5***	***2.4***

[1] In the 2010-2011 Budget, the program spending objective for 2010-2011 totalled $62 561 million. For purposes of comparison, the 2010-2011 data have been restated to take into account the implementation of FORT and FRAF. For additional information, see Appendix 3.

[2] The *Act respecting the Agence du revenu du Québec* stipulates that from now on the allowance for doubtful accounts will be applied against budgetary revenue, whereas previously it was recorded under program spending.

2.2.1 Adjustments to program spending

❑ 2010-2011

Program spending in 2010-2011 stands at $59.8 billion, up 2.4% over 2009-2010 on a comparable basis. This represents an upward revision of $758 million.

This adjustment can be explained by:

- the increase of $356 million attributable to the new actuarial valuations of the retirement plans announced in the fall 2010 *Update on Québec's Economic and Financial Situation*;
- the $402-million rise in the allowance for doubtful accounts.

❑ 2011-2012 and subsequent years

Growth in program spending for 2011-2012 will be 2.4%.

Compared with the March 2010 Budget, the program spending objective is revised upward by $1 342 million, particularly on account of the following:

- $120 million for all the spending measures announced in this budget;
- $357 million attributable to the new actuarial valuations of the retirement announced in the fall 2010 *Update on Québec's Economic and Financial Situation*;
- $352 million stemming from the increase in the allowance for doubtful accounts;
- $217 million for costs related to pay equity;
- $137 million for financing the costs related to the agreement with child-care-service providers.

In 2012-2013, program spending growth will amount to 1.4%.

TABLE C.11

Change in program spending

(millions of dollars)

	2010-2011	2011-2012	2012-2013
PROGRAM SPENDING OBJECTIVE ACCORDING TO THE 2010-2011 BUDGET STRUCTURE[1]	**59 961**	**60 792**	**61 738**
% change	***2.5***	***1.4***	***1.6***
Measures in the 2011-2012 Budget	**—**	**120**	**118**
Adjustments			
- New actuarial valuations of the retirement plans[2]	356	357	358
- Increase in the allowance for doubtful accounts	402	352	352
- Costs related to pay equity	—	217	217
- Agreement with child-care-service providers	—	137	143
- Other adjustments	—	159	37
Subtotal	**758**	**1 222**	**1 107**
TOTAL ADJUSTMENTS SINCE THE 2010-2011 BUDGET	**758**	**1 342**	**1 225**
Reclassification of the allowance for doubtful accounts against revenue[3]	– 900	– 850	– 850
PROGRAM SPENDING OBJECTIVE IN THE 2011-2012 BUDGET	**59 819**	**61 284**	**62 113**
% change	***2.4***	***2.4***	***1.4***

[1] After the implementation of FORT and FRAF.

[2] Presented in the fall 2010 *Update on Québec's Economic and Financial Situation.*

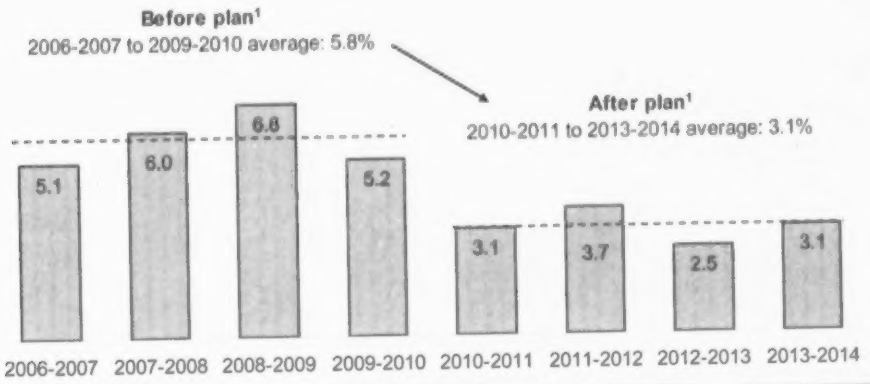
[3] The *Act respecting the Agence du revenu du Québec* stipulates that from now on the allowance for doubtful accounts will be applied against budgetary revenue, whereas previously it was recorded under program spending.

Change in spending since the 2010-2011 Budget

Change in spending since the 2010-2011 Budget
(millions of dollars)

	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Program spending in the 2010-2011 Budget	**– 60 769**	**– 62 561**	**– 63 907**	**– 65 282**	**– 66 686**
% change	3.8	2.9	2.2	2.2	2.2
FINESSS expenditures	—	– 180	– 575	– 995	– 1 445
Program spending in the 2010-2011 – increased by FINESSS expenditures	**– 60 769**	**– 62 741**	**– 64 482**	**– 66 277**	**– 68 131**
% change	*3.8*	*3.2*	*2.8*	*2.8*	*2.8*
Adjustments					
Actuarial valuations of the retirement plans	—	– 356	– 357	– 358	– 360
Increase in the allowance for doubtful accounts	– 402	– 402	– 352	– 352	– 352
Costs related to pay equity	—	—	– 217	– 217	– 217
Agreement with child-care- service providers	—	—	– 137	– 143	– 143
Other adjustments	– 408	—	– 279	– 155	– 378
Total adjustments	**– 810**	**– 758**	**– 1 342**	**– 1 225**	**– 1 450**
Program spending in the 2011-2012 Budget – increased by FINESSS expenditures Basis comparable to that of the 2010-2011 Budget	**– 61 579**	**– 63 499**	**– 65 824**	**– 67 502**	**– 69 581**
% change	*5.2*	*3.1*	*3.7*	*2.5*	*3.1*
Impact of FORT and FRAF	2 290	2 600	3 115	3 544	3 961
Impact of FINESSS	—	180	575	995	1 445
Reclassification of the allowance for doubtful accounts against revenue	900	900	850	850	850
Program spending in the 2011-2012 Budget	**– 58 389**	**– 59 819**	**– 61 284**	**– 62 113**	**– 63 325**
% change	*5.3*	*2.4*	*2.4*	*1.4*	*2.0*

Change in the program spending objective according to the presentation used in the 2010-2011 Budget
(per cent)



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1 Plan to restore fiscal balance.

2.2.2 Efforts on the part of all government departments

Program spending will climb from $59.8 billion in 2010-2011 to $61.3 billion in 2011-2012, an increase of $1 465 million, or 2.4%.

TABLE C.12

Growth in program spending in 2011-2012
(millions of dollars)

			Change	
	2010-2011	**2011-2012**	$ million	%
Santé et Services sociaux	28 116	29 141	1 025	3.6
Éducation, Loisir et Sport	15 213	15 541	328	2.2
Famille et Aînés	2 250	2 387	137	6.1
Other departments	14 240	14 215	– 25	– 0.2
TOTAL	**59 819**	**61 284**	**1 465**	**2.4**

Note: Since figures are rounded, the sum of the amounts entered for each portfolio may not correspond to the total.
Source: Secrétariat du Conseil du trésor.

☐ Health: 3.6% increase in 2011-2012

Program spending by the Ministère de la Santé et des Services sociaux is being raised by $1 025 million, or 3.6%, for 2011-2012. This increase will make it possible to maintain current services. Moreover, total health spending in 2011-2012 will increase to 5.0% particularly as a result of the additional contribution of $395 million from FINESSS to health-care institutions, in keeping with the government's commitment.

☐ Education: 2.2% budget increase

The increase of $328 million, or 2.2%, allocated to the Ministère de l'Éducation, du Loisir et du Sport, will make it possible to maintain and improve the quality of services offered in the education networks and pursue actions undertaken in recent years, in regard to student success and retention.

☐ Family and seniors: 6.1% budget increase

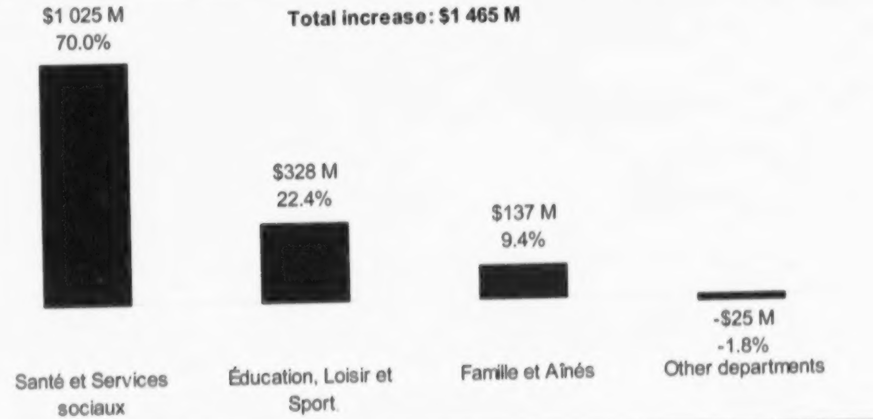
The budget of the Ministère de la Famille et des Ainés is being raised by 6.1%, or $137 million. This increase will make it possible notably to fund the agreement with child-care-service providers.

☐ Other departments

The budget of the other departments is being reduced by 0.2%, or $25 million, in 2011-2012. This decrease can be explained in particular by the expiry of certain programs such as the RENFORT program and other economic support programs.

CHART C.1

Breakdown of program spending growth 2011-2012
(millions of dollars and per cent)



Source: Secrétariat du Conseil du trésor.

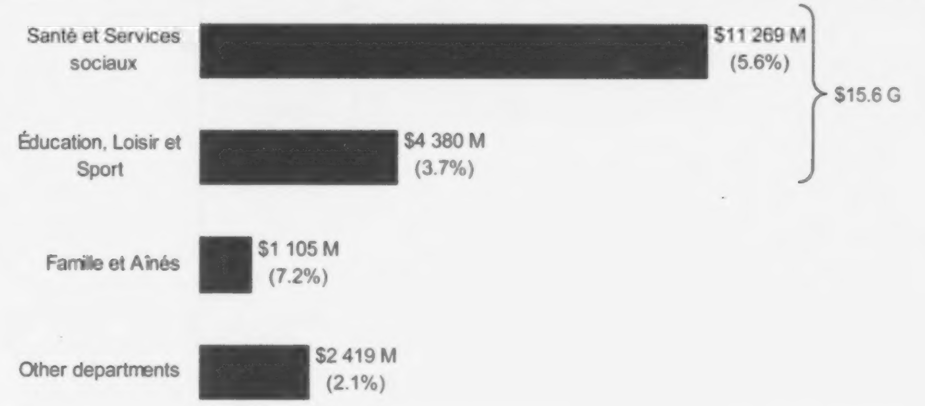
❑ The government's action in its essential missions

The government continues to invest in its essential missions, including health and education. From 2003-2004 to 2011-2012, average annual spending in health and education will rise by 5.6% and 3.7% respectively, excluding the contribution of FINESSS to the growth in health spending.

In all, since 2003, the government has added $15.6 billion to the health and education budgets, i.e. $11.3 billion and $4.4 billion respectively.

CHART C.2

Increase in program spending from 2003-2004[1] to 2011-2012
(dollars and average annual growth in per cent)



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[1] The 2003-2004 data have been restated to take into account the implementation of FORT and FRAF and the reclassification of the allowance for doubtful accounts following the creation of the Agence du revenue du Québec. For additional information, see Appendix 3.

2.2.3 Weight of government spending in the economy

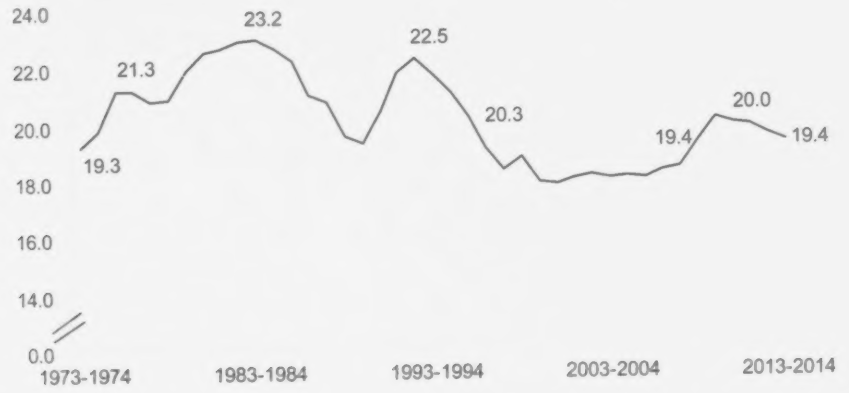
The forecast for program spending in 2011-2012 is in line with the government's overall objective to restore fiscal balance by 2013-2014.

The weight of spending in the economy should be 20.0% in 2011-2012 prior to the implementation of FORT and FRAF and including FINESSS.

Thereafter, the government plans to stay the course of disciplined program spending management and, between now and 2014-2015, gradually bring the weight of spending in the economy down to a proportion equal to that observed prior to the economic recession.

CHART C.3

Program spending
(as a percentage of GDP)



2.2.4 Consolidated expenditure

When the government published the *Public Accounts 2009-2010* last December, it used for the first time line-by-line consolidation for the health and social services and education networks.

Even though network organizations had been included in the government's reporting entity at their equity value since 2006-2007, this new approach is an improvement in that it allows the level of government revenue and expenditure to be presented more accurately.

The following table shows not only the program spending of departments and budget-funded bodies, over which the government is committed to exercising tight control, but also all of the information on spending by special funds, non-budget-funded bodies, network organizations and specified purpose accounts. This presentation reflects the level and growth of the government's total spending, i.e. consolidated expenditure.

This information improves the presentation of the budgetary data and facilitates their comparison with the data disclosed in Québec's public accounts and with data of the other Canadian provinces.

TABLE C.13

Change in consolidated expenditure[1]

(millions of dollars)

	2010-2011	2011-2012	2012-2013
Program spending	**59 819**	**61 284**	**62 113**
% change	2.4	2.4	1.4
Consolidated entities			
Special funds	**10 234**	**10 862**	**11 939**
% change	5.7	6.1	9.9
Non-budget-funded bodies	**17 158**	**17 947**	**18 471**
% change	4.1	4.6	2.9
Health and social services and education networks	**34 748**	**36 305**	**37 924**
% change	3.9	4.5	4.5
Total consolidated entities	**62 140**	**65 114**	**68 334**
% change	4.2	4.8	4.9
Elimination of inter-entity transactions[1]	– 49 936	– 51 639	– 53 214
Consolidated expenditure of departments and organizations	**72 023**	**74 759**	**77 233**
% change	3.9	3.8	3.3
Specified purpose accounts[1]	**1 942**	**1 697**	**1 397**
Debt service of the consolidated revenue fund	**6 934**	**7 794**	**8 646**
% change	13.4	12.4	10.9
Consolidated expenditure[2]	**80 899**	**84 250**	**87 276**
% change	5.7[3]	4.1	3.6

1 Elimination of transactions between entities included in the reporting entity.
2 In 2009-2010, the consolidated expenditure shown in the public accounts was $76 566 million.
3 Excluding the $790-million increase in expenditures in respect of specified purpose accounts stemming essentially from infrastructure agreements with the federal government, growth of consolidated expenditure stands at 4.6% for 2010-2011.

☐ Expenditure of consolidated entities

The expenditure of consolidated entities includes spending by special funds, non-budget-funded bodies and organizations in the health and social services and education networks.[7]

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[7] It should be noted that the Generations Fund is a consolidated entity. However, since it does not show expenditures, it is not included in this list.

☐ Special funds

Growth in spending by special funds in 2010-2011, 2011-2012 and 2012-2013 amounts to 5.7%, 6.1% and 9.9% respectively. These rates include high growth in spending by certain special funds on account of their mission, such as:

- FINESSS, which is devoted to financing health-care institutions;
- FORT, which is devoted to financing public infrastructure;
- Fonds vert (Green Fund), which is devoted to funding initiatives to combat climate change.

If growth in spending by these three funds is not included in the growth of total special fund spending for this period, the change in spending by the 32 other special funds amounts to – 1.5%, – 4.1% and 3.1% respectively in 2010-2011, 2011-2012 and 2012-2013.

TABLE C.14

Change in spending by special funds

(millions of dollars)

	2010-2011	2011-2012	2012-2013
Total special funds	**10 234**	**10 862**	**11 939**
% change	*5.7*	*6.1*	*9.9*
Including:			
FINESSS	180	575	995
FORT	2 103	2 516	2 940
Fonds vert	373	507	514
Subtotal	**2 656**	**3 598**	**4 449**
% change	*33.7*	*35.5*	*23.7*
Other special funds	**7 578**	**7 264**	**7 490**
% change	*– 1.5*	*– 4.1*	*3.1*

Act to amend the special funds, among other things

A new bill will be tabled in the National Assembly this spring, notably to improve oversight of the special funds.

The purpose of the bill will be to propose legislative amendments so that:

- the revenue of the special funds will be included in the consolidated revenue fund;
- the expenditures and investments of the special funds will be subject to annual authorization by the members of the National Assembly.

The present budget presents the results of the special funds separately from those of non-budget-funded bodies.

❑ Non-budget-funded bodies

Non-budget-funded bodies show annual spending growth of 4.1%, 4.6% and 2.9% for 2010-2011, 2011-2012 and 2012-2013 respectively.

As with special funds, certain non-budget-funded bodies have a mission that entails strong growth in spending. This is the case, for example, of the Société de financement des infrastructures locales du Québec, which finances municipal infrastructure.

❑ Health and social services and education networks

Since they are deemed a priority, organizations in the health and social services and education networks show spending growth of 3.9%, 4.5% and 4.5% respectively for 2010-2011, 2011-201 and 2012-2013.

❑ Consolidated expenditure of departments and organizations

The consolidated expenditure of departments and agencies consists of all spending included in the government's reporting entity for the purpose of providing services to the general public.

Growth in consolidated expenditure is expected to amount to 3.9%, 3.8 % and 3.3 % for 2010-2011, 2011-201 and 2012-2013 respectively. Although these growth rates are slightly higher than that of program spending because of the factors mentioned in regard to certain special funds, non-budget-funded bodies and the networks, there will be a marked slowdown in consolidated expenditure.

❑ Consolidated expenditure

The growth in consolidated expenditure comprises total government spending, including spending in respect of the specified purpose accounts and the debt service of the consolidated revenue fund.

Annual growth in consolidated expenditure for 2010-2011, 2011-2012 and 2012-2013 will amount to 5.7%, 4.1% and 3.6% respectively. This downward trend in the growth of consolidated expenditure is due mainly to control of program spending, whose growth will stand at 2.4% in 2011-2012 and 1.4% in 2012-2013. In addition, the rate at which funds will be paid into the specified purpose accounts will be more regular by 2012-2013, particularly because of the expiry of the Canada's Economic Action Plan.

2.2.5 Debt service

In 2010-2011, debt service should amount to $6.9 billion, i.e. $4.3 billion for direct debt service and $2.7 billion for interest ascribed to the retirement plans.

Overall, debt service is revised downward by $46 million compared with the March 2010 Budget mainly because of lower-than-anticipated interest rates.

In 2011-2012 and 2012-2013, debt service is expected to climb by 12.4% and 10.9% respectively. This increase can be explained by higher interest rates, the impact of the returns of the Caisse de dépôt et placement du Québec on the income of the Retirement Plans Sinking Fund, which is applied against the interest on the retirement plans account, and the rise in the debt.

TABLE C.15

Consolidated revenue fund
Change in debt service
(millions of dollars)

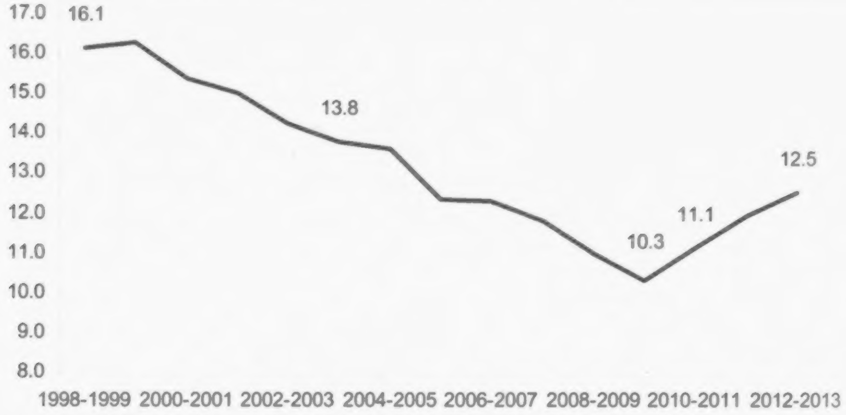
	2010-2011 Budget		2011-2012 Budget		
	2010-2011	Adjustments	2010-2011	2011-2012	2012-2013
Direct debt service	4 398	– 112	4 286	5 007	5 574
Interest ascribed to the retirement plans	2 597	64	2 661	2 804	3 091
Interest ascribed to employee future benefits	– 15	2	– 13	– 17	– 19
Debt service	**6 980**	**– 46**	**6 934**	**7 794**	**8 646**
% change	***13.4***		***13.4***	***12.4***	***10.9***

☐ A smaller proportion of revenue is being devoted to servicing the debt of the consolidated revenue fund

The share of budgetary revenue devoted to the debt service of the consolidated revenue fund should stand at 12.5% in 2012-2013, compared with 16.1% in 1998-1999.

CHART C.4

Debt service of the consolidated revenue fund
(as a percentage of the revenue of the consolidated revenue fund)



Note: Preliminary results for 2010-2011 and forecasts for subsequent years.

3. CONSOLIDATED BUDGETARY FORECASTS FOR REVENUE AND EXPENDITURE

For the second year in a row, the government is presenting consolidated financial forecasts for its revenue and expenditure as whole. This consolidated presentation of the financial framework does not change the budgetary balance within the meaning of the *Balance Budget Act* presented in the preceding tables in Section C.

Essentially, the consolidated financial forecasts add the budgetary revenue and expenditure of all the entities in the government's reporting entity, including the entities in the health and social services and education networks, to the budgetary revenue and expenditure of the consolidated revenue fund. They thus provide more complete and detailed information on the government's financial projections, as well as better reconciliation with the actual results presented in the public accounts.

In this regard, it should be noted that the *Public Accounts 2009-2010* tabled by the government on last December 2 presented for the first time the health and social services and education networks consolidated line by line.

Line-by-line consolidation involves eliminating transactions between related entities, particularly transfer expenditures from the government that are paid to consolidated entities and the corresponding revenues received by these entities.

3.1 Change in consolidated revenue and expenditure from 2010-2011 to 2012-2013

Table C.16 presents the government's consolidated financial framework for fiscal 2010-2011 to 2012-2013.

More specifically, tables C.17, C.18 and C.19 detail the consolidated budgetary forecasts for 2010-2011 to 2012-2013. The consolidation includes transactions by consolidated entities and specified purpose accounts. Financial transactions between entities in the government's reporting entity are subsequently eliminated to re-establish the consolidated revenue and expenditure levels. Since these transactions are carried out within the government, they do not affect the budgetary balance.

TABLE C.16

Change in consolidated revenue and expenditure
Consolidated results by entity

(millions of dollars)

	2010-2011	2011-2012	2012-2013
Revenue			
Consolidated revenue fund	62 376	65 375	69 087
Special funds	10 704	11 111	11 941
Non-budget-funded bodies	17 217	17 926	18 541
Health and social services and education networks	34 696	36 280	37 924
Generations Fund	732	940	1 047
Specified purpose accounts	1 942	1 697	1 397
Less: Elimination of inter-entity transations[1]	– 49 936	– 51 639	– 53 214
Consolidated revenue	**77 731**	**81 690**	**86 723**
Expenditure			
Consolidated revenue fund	– 59 819	– 61 284	– 62 113
Special funds	– 10 234	– 10 862	– 11 939
Non-budget-funded bodies	– 17 158	– 17 947	– 18 471
Health and social services and education networks	– 34 748	– 36 305	– 37 924
Less: Elimination of inter-entity transations[1]	49 936	51 639	53 214
Consolidated expenditure of departments and organizations	**– 72 023**	**– 74 759**	**– 77 233**
Specified purpose accounts	– 1 942	– 1 697	– 1 397
Debt service of the consolidated revenue fund	– 6 934	– 7 794	– 8 646
Consolidated expenditure	**– 80 899**	**– 84 250**	**– 87 276**
Contingency reserve	– 300	– 300	– 200
Measures to be identified	—	—	300
DEFICIT	**– 3 468**	**– 2 860**	**– 453**
Deposits of dedicated revenues in the Generations Fund	– 732	– 940	– 1 047
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 200**	**– 3 800**	**– 1 500**

[1] Elimination of transactions between entities in the reporting entity.

TABLE C.17

Detailed consolidated financial framework
Consolidated results by entity

(millions of dollars)

	2010-2011							
		Consolidated entities						
	Consolidated revenue fund	Special funds	Non-budget-funded bodies	Health and social services and education networks	Generations Fund	Specified purpose accounts	Consolidation adjustments	Consolidated results
Revenue								
Income and property taxes	27 512	1 884		1 471			– 139	30 728
Consumption taxes	12 852	1 973	93					14 918
Duties and permits	337	1 089	476	198				2 100
Miscellaneous	1 511	3 495	8 496	3 775		221	– 10 691	6 807
Government enterprises	4 713							4 713
Other revenue sources					732			732
Own-source revenue	**46 925**	**8 441**	**9 065**	**5 444**	**732**	**221**	**– 10 830**	**59 998**
Québec government transfers		1 980	8 114	29 012			– 39 106	—
Federal transfers	15 451	283	38	240		1 721		17 733
Total revenue	**62 376**	**10 704**	**17 217**	**34 696**	**732**	**1 942**	**– 49 936**	**77 731**
Expenditure								
Expenditure	– 59 819	– 9 294	– 15 852	– 33 954		– 1 942	48 819	– 72 042
Debt service	– 6 934	– 940	– 1 306	– 794			1 117	– 8 857
Total expenditure	**– 66 753**	**– 10 234**	**– 17 158**	**– 34 748**	—	**– 1 942**	**49 936**	**– 80 899**
Contingency reserve	– 300							– 300
SURPLUS (DEFICIT)	**– 4 677**	**470**	**59**	**– 52**	**732**	—	—	**– 3 468**
Deposits of dedicated revenues in the Generations Fund					– 732			– 732
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 677**	**470**	**59**	**– 52**	—	—	—	**– 4 200**

Note: The public accounts will present the results according to the non-restated 2010-2011 structure.

TABLE C.18

Detailed consolidated financial framework
Consolidated results by entity

(millions of dollars)

	2011-2012							
		Consolidated entities						
	Consolidated revenue fund	Special funds	Non-budget-funded bodies	Health and social services and education networks	Generations Fund	Specified purpose accounts	Consolidation adjustments	Consolidated results
Revenue								
Income and property taxes	28 718	2 244		1 489			– 220	32 231
Consumption taxes	14 897	2 125	103					17 125
Duties and permits	524	1 185	491	208				2 408
Miscellaneous	1 407	3 562	8 468	3 906		357	– 10 757	6 943
Government enterprises	4 790							4 790
Other revenue sources					940			940
Own-source revenue	**50 336**	**9 116**	**9 062**	**5 603**	**940**	**357**	**– 10 977**	**64 437**
Québec government transfers		1 938	8 295	30 429			– 40 662	—
Federal transfers	15 039	57	569	248		1 340		17 253
Total revenue	**65 375**	**11 111**	**17 926**	**36 280**	**940**	**1 697**	**– 51 639**	**81 690**
Expenditure								
Expenditure	– 61 284	– 9 663	– 16 692	– 35 465		– 1 697	50 411	– 74 390
Debt service	– 7 794	– 1 199	– 1 255	– 840			1 228	– 9 860
Total expenditure	**– 69 078**	**– 10 862**	**– 17 947**	**– 36 305**	**—**	**– 1 697**	**51 639**	**– 84 250**
Contingency reserve	– 300							– 300
SURPLUS (DEFICIT)	**– 4 003**	**249**	**– 21**	**– 25**	**940**	**—**	**—**	**– 2 860**
Deposits of dedicated revenues in the Generations Fund					– 940			– 940
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 003**	**249**	**– 21**	**– 25**	**—**	**—**	**—**	**– 3 800**

TABLE C.19

Detailed consolidated financial framework
Consolidated results by entity

(millions of dollars)

	2012-2013							
		Consolidated entities						
	Consolidated revenue fund	Special funds	Non-budget-funded bodies	Health and social services and education networks	Generations Fund	Specified purpose accounts	Consolidation adjustments	Consolidated results
Revenue								
Income and property taxes	30 110	2 621		1 512			– 252	33 991
Consumption taxes	16 754	2 280	104					19 138
Duties and permits	503	1 224	497	212				2 436
Miscellaneous	1 586	3 832	9 151	4 431		359	– 11 121	8 238
Government enterprises	4 930							4 930
Other revenue sources					1 047			1 047
Own-source revenue	**53 883**	**9 957**	**9 752**	**6 155**	**1 047**	**359**	**– 11 373**	**69 780**
Québec government transfers		1 930	8 399	31 512			– 41 841	—
Federal transfers	15 204	54	390	257		1 038		16 943
Total revenue	**69 087**	**11 941**	**18 541**	**37 924**	**1 047**	**1 397**	**– 53 214**	**86 723**
Expenditure								
Expenditure	– 62 113	– 10 291	– 17 053	– 37 020		– 1 397	51 725	– 76 149
Debt service	– 8 646	– 1 648	– 1 418	– 904			1 489	– 11 127
Total expenditure	**– 70 759**	**– 11 939**	**– 18 471**	**– 37 924**	—	**– 1 397**	**53 214**	**– 87 276**
Contingency reserve	– 200							– 200
Measures to be identified	300							300
SURPLUS (DEFICIT)	**– 1 572**	**2**	**70**	—	**1 047**	—	—	**– 453**
Deposits of dedicated revenues in the Generations Fund					– 1 047			– 1 047
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 1 572**	**2**	**70**	—	—	—	—	**– 1 500**

3.2 Consolidated entities

In addition to the financial transactions of the consolidated revenue fund, the government's budgetary forecasts take into account all of the consolidated entities in the government's reporting entity:

- special funds;
- non-budget-funded bodies;
- the health and social services and education networks;
- the Generations Fund.

The following table shows the net results of each group of consolidated entities.

TABLE C.20

Net results of consolidated entities
(millions of dollars)

	2010-2011	2011-2012	2012-2013
Special funds	470	249	2
Non-budget-funded bodies	59	– 21	70
Health and social services and education networks	– 52	– 25	—
Generations Fund (dedicated revenues)	732	940	1 047
NET RESULTS	**1 209**	**1 143**	**1 119**

3.2.1 Special funds

The special funds consist of 35 entities set up in government departments or organizations. Their mission is to deliver services and sell goods or to fund government programs. Special fund activities can be financed through fees, dedicated revenues from taxes, tax revenues or budgetary appropriations allocated annually by the National Assembly.

The government has decided to create new special funds. In this way, it will provide Quebecers with more transparent information on the specific allocation of certain tax revenue that is used to finance priority missions such as road infrastructure, specific health services and tax adminstration.

The table below presents the net results of the special funds for 2010-2011, 2011-2012 and 2012-2013. Overall, the special funds show a surplus of $470 million, $249 million and $2 million respectively for these three years.

TABLE C.21

Special funds
Net results
(millions of dollars)

	2010-2011	2011-2012	2012-2013
Revenue			
Income and property taxes	1 884	2 244	2 621
Consumption taxes	1 973	2 125	2 280
Duties and permits	1 089	1 185	1 224
Miscellaneous	3 495	3 562	3 832
Own-source revenue	**8 441**	**9 116**	**9 957**
Québec government transfers	1 980	1 938	1 930
Federal transfers	283	57	54
Total revenue	**10 704**	**11 111**	**11 941**
Expenditure			
Expenditure	– 9 294	– 9 663	– 10 291
Debt service	– 940	– 1 199	– 1 648
Total expenditure	**– 10 234**	**– 10 862**	**– 11 939**
NET RESULTS	**470**	**249**	**2**

List of special funds

- Fonds d'aide à l'action communautaire autonome
- Fonds d'aide aux victimes d'actes criminels
- Fonds d'assistance financière pour certaines régions sinistrées
- Fonds de développement du marché du travail
- Fonds de développement régional
- Fonds de financement
- Fonds de financement des établissements de santé et de services sociaux (Fund to Finance Health and Social Services Institutions) (FINESSS)
- Fonds de fourniture de biens ou de services du ministère de l'Emploi et de la Solidarité sociale
- Fonds de gestion de l'équipement roulant
- Fonds de la sécurité routière
- Fonds de l'assurance médicaments
- Fonds de l'industrie des courses de chevaux
- Fonds de partenariat touristique
- Fonds de soutien aux proches aidants
- Fonds des pensions alimentaires
- Fonds des registres du ministère de la Justice
- Fonds des réseaux de transport terrestre (Land Transportation Network Fund) (FORT)
- Fonds des services de police
- Fonds des technologies de l'information du Conseil du trésor
- Fonds des technologies de l'information du ministère de l'Emploi et de la Solidarité sociale
- Fonds d'information foncière
- Fonds d'information géographique
- Fonds du centre financier de Montréal
- Fonds du développement économique[1]
- Fonds du patrimoine culturel québécois
- Fonds du patrimoine minier
- Fonds du service aérien gouvernemental
- Fonds forestier
- Fonds pour la promotion des saines habitudes de vie
- Fonds pour le développement des jeunes enfants
- Fonds pour le développement du sport et de l'activité physique
- Fonds québécois d'initiatives sociales
- Fonds relatif à la tempête de verglas
- Fonds relatif à l'administration fiscale (Tax Administration Fund) (FRAF)[1]
- Fonds vert (Green Fund)

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[1] The Fonds du développement économique and the fonds relatif à l'administration fiscale will begin their activities on April 1, 2011.

3.2.2 Non-budget-funded bodies

The non-budget-funded bodies comprise 68 entities, which are listed in the box below.

These bodies were created to provide specific public services in sectors such as agriculture, through La Financière agricole du Québec, transportation, through the Agence métropolitaine de transport and the Société des traversiers du Québec, and culture, through museums and the Société de développement des entreprises culturelles.

The net results of non-budget-funded bodies stand at $59 million in 2010-2011, – $21 million in 2011-2012 and $70 million in 2012-2013.

TABLE C.22

Non-budget-funded bodies
Net results
(millions of dollars)

	2010-2011	2011-2012	2012-2013
Revenue			
Income and property taxes	—	—	—
Consumption taxes	93	103	104
Duties and permits	476	491	497
Miscellaneous	8 496	8 468	9 151
Own-source revenue	**9 065**	**9 062**	**9 752**
Québec government transfers	8 114	8 295	8 399
Federal transfers	38	569	390
Total revenue	**17 217**	**17 926**	**18 541**
Expenditure			
Expenditure	– 15 852	– 16 692	– 17 053
Debt service	– 1 306	– 1 255	– 1 418
Total expenditure	**– 17 158**	**– 17 947**	**– 18 471**
NET RESULTS	**59**	**– 21**	**70**

List of non-budget-funded bodies

Agence de l'efficacité énergétique
Agence du revenu du Québec[1]
Agence métropolitaine de transport
Autorité des marchés financiers
Bibliothèque et Archives nationales du Québec
Bureau de décision et de révision
Centre de la francophonie des Amériques
Centre de recherche industrielle du Québec
Centre de services partagés du Québec
Commission de la capitale nationale du Québec
Commission des lésions professionnelles
Commission des normes du travail
Commission des relations du travail
Commission des services juridiques
Conseil des arts et des lettres du Québec
Conservatoire de musique et d'art dramatique du Québec
Corporation d'hébergement du Québec
Corporation d'urgence-santé
École nationale de police du Québec
École nationale des pompiers du Québec
Financement-Québec
Fondation de la faune du Québec
Fonds d'aide aux recours collectifs
Fonds d'assurance-prêts agricoles et forestiers
Fonds de la recherche en santé du Québec
Fonds québécois de la recherche sur la nature et les technologies
Fonds québécois de la recherche sur la société et la culture
Héma-Québec
Immobilière SHQ
Infrastructure Québec
Institut de la statistique du Québec
Institut de tourisme et d'hôtellerie du Québec
Institut national d'excellence en santé et en services sociaux
Institut national de santé publique du Québec
Institut national des mines
La Financière agricole du Québec
Musée d'Art contemporain de Montréal
Musée de la Civilisation
Musée national des beaux-arts du Québec
Office de la sécurité du revenu des chasseurs et piégeurs cris
Office des professions du Québec
Office Québec-Amériques pour la jeunesse
Office Québec-Monde pour la jeunesse
Régie de l'assurance maladie du Québec
Régie de l'énergie
Régie des installations olympiques
Régie du bâtiment du Québec
Régie du cinéma
Services Québec
Société d'habitation du Québec
Société de développement de la Baie-James
Société de développement des entreprises culturelles
Société de financement des infrastructures locales du Québec
Société de l'assurance automobile du Québec
Société de la Place des Arts de Montréal
Société de télédiffusion du Québec
Société des établissements de plein air du Québec
Société des traversiers du Québec
Société du Centre des congrès de Québec
Société du Grand Théâtre de Québec
Société du Palais des congrès de Montréal
Société du parc industriel et portuaire de Bécancour
Société immobilière du Québec
Société nationale de l'amiante
Société québécoise d'assainissement des eaux
Société québécoise de récupération et de recyclage
Société québécoise d'information juridique
Tribunal administratif du Québec

[1] The Agence du revenu du Québec will begin its activities on April 1, 2011.

3.2.3 The health and social services and education networks

The health and social services network is made up of 208 entities. These entities comprise 15 agencies and 3 regional authorities in health and social services, as well as 190 public health and social services institutions.

The education network is made of up 131 entities, including 73 school boards, 48 CEGEPs and the Université du Québec and its nine constituent universities.

The health and social services and education networks show combined deficits of $52 million in 2010-2011 and $25 million in 2011-2012. For fiscal 2012-2013, the health and social services and education networks show balanced combined results.

The deficit of the networks in 2010-2011 can be attributed to the deficit of the health and social services network, estimated at $139 million.

However, the government has introduced various measures to eliminate this deficit over the medium term, particularly through the creation of the Fund to Finance Health and Social Services Institutions (FINESSS). Spending control measures were also provided for in Bill 100, which was passed following the March 30, 2010 Budget.

Deficits of $114 million and $89 million are forecast for the health network in 2011-2012 and 2012-2013 respectively.

TABLE C.23

Health and social services and education networks
Net results

(millions of dollars)

	2010-2011	2011-2012	2012-2013
Revenue			
School property taxes	1 471	1 489	1 512
Duties and permits	198	208	212
Miscellaneous	3 775	3 906	4 431
Own-source revenue	**5 444**	**5 603**	**6 155**
Québec government transfers	29 012	30 429	31 512
Federal transfers	240	248	257
Total revenue	**34 696**	**36 280**	**37 924**
Expenditure			
Expenditure	– 33 954	– 35 465	– 37 020
Debt service	– 794	– 840	– 904
Total expenditure	**– 34 748**	**– 36 305**	**– 37 924**
NET RESULTS	**– 52**	**– 25**	**—**

3.2.4 Generations Fund

Deposits in the Generations Fund are expected to reach $732 million for 2010-2011.

For 2011-2012 and 2012-2013, total deposits in the Generations Fund are expected to amount to $940 million and $1 047 million respectively. As a result, the book value of the Generations Fund will reach $5.4 billion as at March 31, 2013. Section H presents the results of and change in the Generations Fund in greater detail.

TABLE C.24

Deposits in the Generations Fund
(millions of dollars)

	2010-2011 Budget		2011-2012 Budget		
	2010-2011	Adjustments	2010-2011	2011-2012	2012-2013
Dedicated revenues					
Water-power royalties	687	– 54	633	689	733
Unclaimed property	2	9	11	7	7
Investment income	203	– 115	88	244	307
TOTAL	**892**	**– 160**	**732**	**940**	**1 047**

4. GOVERNMENT INVESTMENTS

4.1 The Québec Infrastructures Plan

Over the coming years, the government will continue to invest in Québec's public infrastructure. As prescribed by the *Act to promote the maintenance and renewal of public infrastructures* (R.S.Q., c. M-1.2), a substantial portion of these investments will be allocated to maintaining the quality of existing infrastructure and eliminating the maintenance deficit by 2022-2023.

Under the 2010-2015 Québec Infrastructures Plan, the government will invest $44.6 billion over five years, which represents an increase of $1 916 million compared with the previous plan. This growth rate of 4.5% is comparable to that of the economy.

Coupled with the contribution of the Québec government's various partners in the projects included in the five-year plan, investments under the 2010-2015 Québec Infrastructures Plan will reach $57.0 billion over five years.

TABLE C.25

Infrastructure investments in 2010-2015
(millions of dollars)

2009-2014 Québec Infrastructures Plan	**42 639.4**
Increase in the five-year budget: 4.5%	1 916.4
2010-2015 Québec Infrastructures Plan	**44 555.8**
Contribution from partners[1]	12 490.8
TOTAL INFRASTRUCTURE INVESTMENTS IN 2010-2015	**57 046.6**

[1] Federal government, municipalities and other partners.

❑ Investment targets for the coming years

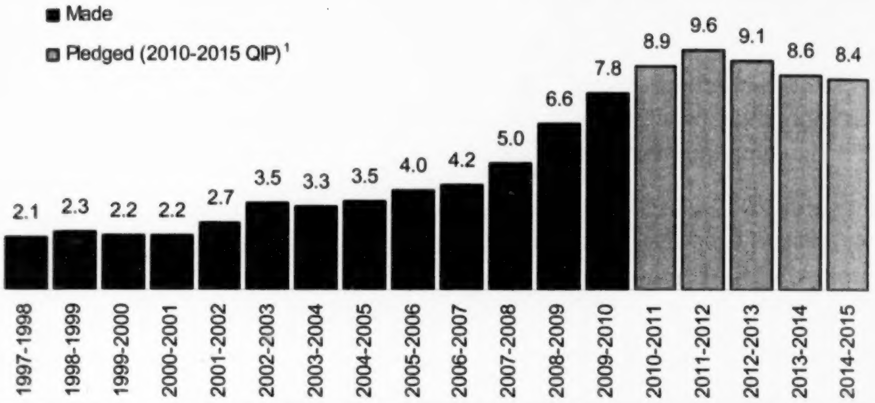
Over the coming years, the government is committed to accelerating investments in public infrastructure, particularly to support the economy and employment.

To secure the economic recovery, the level of investment will be maintained until 2012-2013.

Thereafter, as of 2012-2013, the government will gradually reduce the annual level of investments while complying with the *Act to promote the maintenance and renewal of public infrastructures*.

CHART C.5

Change in infrastructure investment
(Québec government contribution, billions of dollars)



[1] Annual investments are detailed in Appendix 1 of this section.

4.2 Investments by Québec government departments and organizations

In addition to investments of roughly $9.6 billion in 2011-2012 under the Québec Infrastructures Plan, the Québec government will invest $1.5 billion through its various departments, agencies and special funds. These investments will include capital expenditures required for government functions and for maintaining the quality of public services.

TABLE C.26

Investments by government departments, agencies and special funds
(millions of dollars)

	2011-2012
Departments and budget-funded bodies	407.9
Non-budget-funded bodies	640.4
Special funds	446.4
TOTAL	**1 494.7**

Note: These investments exclude those made under the Québec Infrastructures Plan.

4.3 Investments by government enterprises

Government enterprises will make major investments in the coming years. In 2011-2012, investments by Hydro-Québec, Loto-Québec and the Société des alcools du Québec will reach $4.9 billion. Over the period from 2010-2011 to 2012-2013, investments by these corporations will total $15.1 billion.

TABLE C.27

Investments by government enterprises
(millions of dollars)

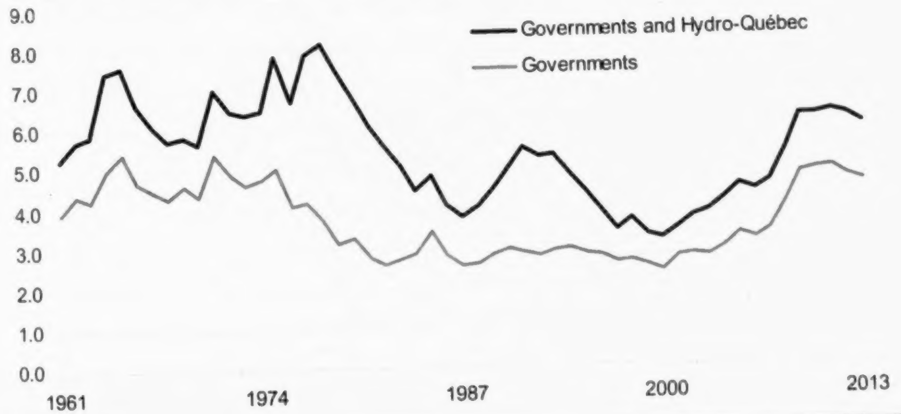
	2010-2011	2011-2012	2012-2013	Total
Hydro-Québec	4 220.0	4 609.0	5 257.0	14 086.0
Loto-Québec	210.6	253.9	374.6	839.1
Société des alcools du Québec	55.0	65.0	45.0	165.0
TOTAL	**4 485.6**	**4 927.9**	**5 676.6**	**15 090.1**

4.4 Public investments in the economy

Public investments in Québec, including those by the Québec Infrastructures Plan, municipalities, the federal government and Hydro-Québec will reach 6.3% of GDP in 2011, a level not seen for over 25 years.

CHART C.6

Investments by governments[1] and Hydro-Québec in Québec
(as a percentage of GDP)



[1] Québec government, federal government and municipalities.
Sources: Statistics Canada and Ministère des Finances du Québec.

In fact, the forecast average investment of $13.7 billion in 2010-2011 to 2011-2012 by the government under its Québec Infrastructures Plan and by Hydro-Québec will create or support close to 100 000 jobs in Québec, i.e. 2.5% of all jobs.

— The increase in public investments by the Québec government and Hydro-Québec will support 29 000 more jobs.

TABLE C.28

Jobs supported by the Québec Infrastructures Plan[1] and Hydro-Québec

	Average annual value of investments ($ billion)	**Average annual number of jobs[2]** (units)
2003-2004 to 2009-2010	8.5	65 000
Increase between the two periods	5.2	29 000
2010-2011 AND 2011-2012	**13.7**	**94 000**

1 Ministère des Finances du Québec estimates based on the intersectoral model of the Institut de la statistique du Québec.

2 Québec government contributions only.

5. CONSOLIDATED NET FINANCIAL REQUIREMENTS

Net surpluses or financial requirements represent the difference between the government's cash inflow and disbursements. This measure takes into account not only changes in the budgetary balance on an accrual basis, but also resources or requirements arising from the government's investments through the acquisition of fixed assets, through loans, investments and advances, and through other activities such as paying accounts payable and collecting accounts receivable. The difference between the budgetary balance and net financial requirements is recognized in non-budgetary transactions.

As a whole, the government's consolidated net financial requirements stand at $6.5 billion in 2010-2011, $7.5 billion in 2011-2012 and $4.5 billion in 2012-2013.

TABLE C.29

Consolidated net financial requirements[1]
(millions of dollars)

	2010-2011 Budget		2011-2012 Budget		
	2010-2011	**Adjustments**	**2010-2011**	**2011-2012**	**2012-2013**
Budgetary balance within the meaning of the *Balanced Budget Act*	– 4 506	306	– 4 200	– 3 800	– 1 500
Deposits of dedicated revenues in the Generations Fund	892	– 1[illegible]0	732	940	1 047
Total consolidated budgetary transactions	**– 3 614**	**146**	**– 3 468**	**– 2 860**	**– 453**
Consolidated non-budgetary transactions					
Investments, loans and advances	– 1 281	– 341	– 1 622	– 2 024	– 1 101
Capital expenditures	– 4 653	– 441	– 5 094	– 4 222	– 5 373
Retirement plans and employee future benefits	2 667	697	3 364	2 720	2 597
Other accounts	– 98	448	350	– 1 148	– 121
Total consolidated non-budgetary transactions	**– 3 365**	**363**	**– 3 002**	**– 4 674**	**– 3 998**
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 6 979**	**509**	**– 6 470**	**– 7 534**	**– 4 451**

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

The consolidated net financial requirements shown in the above table come from the following sources:

- The net financial requirements of the consolidated revenue fund amount to \$1.5 billion for 2010-2011, \$3.5 billion for 2011-2012 and \$600 million for 2012-2013. These variations mainly reflect the change in the deficits forecast for the coming years and the capital funding granted by Investissement Québec to provide assistance to businesses.
- The net financial requirements of consolidated entities, excluding the Generations Fund, stand at \$5.7 billion for 2010-2011, \$5.0 billion for 2011-2012 and \$4.9 billion for 2012-2013. These net financial requirements stem largely from infrastructure investments provided for by the Land Transportation Network Fund and by the health and social services and education networks.
- The net financial surplus of the Generations Fund amounts to \$732 million for 2010-2011, \$940 million for 2011-2012 and \$1.0 billion for 2012-2013.

TABLE C.30

Consolidated net financial requirements by entity[1]
(millions of dollars)

	2010-2011 Budget		2011-2012 Budget		
	2010-2011	**Adjustments**	**2010-2011**	**2011-2012**	**2012-2013**
Consolidated revenue fund	– 3 000	1 500	– 1 500	– 3 500	– 600
Consolidated entities[2]	– 4 871	– 831	– 5 702	– 4 974	– 4 898
Generations Fund	892	– 160	732	940	1 047
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 6 979**	**509**	**– 6 470**	**– 7 534**	**– 4 451**

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.
[2] Excluding the Generations Fund.

6. CONSOLIDATED NON-BUDGETARY TRANSACTIONS

Consolidated non-budgetary transactions consist of the non-budgetary transactions of the consolidated revenue fund and those of consolidated entities. They are presented by activity:

- investments, loans and advances;
- capital expenditures;
- retirement plans and employee future benefits;
- other accounts.

For 2010-2011, consolidated non-budgetary requirements stand at $3.0 billion, or $363 million less than forecast in the March 2010 Budget. For 2011-2012 and 2012-2013, consolidated non-budgetary requirements stand at $4.7 billion and $4.0 billion respectively.

TABLE C.31

Summary of consolidated non-budgetary transactions[1]

(millions of dollars)

	2010-2011 Budget[2]		2011-2012 Budget		
	2010-2011	Adjustments	2010-2011	2011-2012	2012-2013
Consolidated revenue fund					
Investments, loans and advances	– 1 103	817	– 286	– 1 118	– 968
Capital expenditures	– 266	– 76	– 342	– 369	– 376
Retirement plans and employee future benefits	2 667	697	3 364	2 720	2 597
Other accounts	585	– 144	441	– 730	– 281
Total	**1 883**	**1 294**	**3 177**	**503**	**972**
Consolidated entities					
Investments, loans and advances	– 178	– 1 158	– 1 336	– 906	– 133
Capital expenditures	– 4 387	– 365	– 4 752	– 3 853	– 4 997
Retirement plans and employee future benefits	—	—	—	—	—
Other accounts	– 683	592	– 91	– 418	160
Total	**– 5 248**	**– 931**	**– 6 179**	**– 5 177**	**– 4 970**
Consolidated non-budgetary transactions					
Investments, loans and advances	– 1 281	– 341	– 1 622	– 2 024	– 1 101
Capital expenditures	– 4 653	– 441	– 5 094	– 4 222	– 5 373
Retirement plans and employee future benefits	2 667	697	3 364	2 720	2 597
Other accounts	– 98	448	350	– 1 148	– 121
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	**– 3 365**	**363**	**– 3 002**	**– 4 674**	**– 3 998**

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

[2] The data for the 2010-2011 Budget have been restated to reflect the creation of special funds since that budget was tabled. Appendix 3 gives the details of these restatements.

☐ Investments, loans and advances

Consolidated financial requirements for investments, loans and advances for 2010-2011 amount to $1.6 billion. The forecasts for 2011-2012 and 2012-2013 stand at $2.0 billion and $1.1 billion respectively.

For 2010-2011, the investments, loans and advances of the consolidated revenue fund show financial requirements of $286 million, or $817 million less than forecast in last year's budget.

This decrease can be attributed mainly to the change in the payment schedule for capital funding granted to government enterprises. This change is due to, among other things, the merger of Investissement Québec (IQ) and the Société générale de financement du Québec (SGF).

- The capital funding of $500 million provided for in 2010-2011 for the SGF will be allocated to IQ over the next two years, i.e. $400 million in 2011-2012 and $100 million in 2012-2013.

The financial requirements of consolidated entities in regard to investments, loans and advances amount to $1.3 billion for 2010-2011 and $906 million for 2011-2012. The requirements for 2010-2011 arise primarily from loans by Financement-Québec to municipal entities under the municipal infrastructure low-cost loans program set up under Canada's Economic Action Plan.

☐ Retirement plans and employee future benefits

For 2010-2011, the balance of non-budgetary transactions in regard to the retirement plans and employee future benefits is $3.4 billion, which reduces the government's financing needs.

For 2011-2012 and 2012-2013, the retirement plans and employee future benefits should help to reduce financing needs by $2.7 billion and $2.6 billion respectively.

☐ Other accounts

Net financial requirements for other accounts consist of a series of changes in assets and liabilities such as accounts receivable, accounts payable and deferred revenue.

In 2010-2011, the change in other accounts will constitute a source of financing, amounting to $350 million.

☐ Capital expenditures

In 2010-2011, financial requirements associated with capital expenditures total $5.1 billion. As shown in the following table, they consist of investments of $7.9 billion minus the $2.8-billion depreciation.

Forecast financial requirements for 2011-2012 and 2012-2013 stand at $4.2 billion and $5.4 billion respectively.

Financial requirements in regard to consolidated entities for 2010-2011 are largely explained by investments of $4.1 billion by special funds, including $3.8 billion in road infrastructure. These investments also explain the increase in financial requirements for 2011-2012 and 2012-2013.

TABLE C.32

Net investments in capital expenditures[1]

(millions of dollars)

	2010-2011 Budget		2011-2012 Budget		
	2010-2011	**Adjustments**	**2010-2011**	**2011-2012**	**2012-2013**
Consolidated revenue fund					
Level of investment	– 518	25	– 493	– 523	– 533
Depreciation	252	– 101	151	154	157
Total – Consolidated revenue fund	**– 266**	**– 76**	**– 342**	**– 369**	**– 376**
Consolidated entities					
Special funds					
- Level of investment	– 4 260	184	– 4 076	– 3 061	– 3 253
- Depreciation	1 102	– 227	875	918	1 011
- Total – Special funds	– 3 158	– 43	– 3 201	– 2 143	– 2 242
Non-budget-funded bodies					
- Level of investment	– 668	– 201	– 869	– 1 204	– 1 726
- Depreciation	499	1	500	576	631
- Total – Non-budget-funded bodies	– 169	– 200	– 369	– 628	– 1 095
Health and social services and education networks					
- Level of investment	– 2 392	– 107	– 2 499	– 2 458	– 3 153
- Depreciation	1 332	– 15	1 317	1 376	1 493
- Total – Health and social services and education networks	– 1 060	– 122	– 1 182	– 1 082	– 1 660
Consolidated entities					
Level of investment	– 7 320	– 124	– 7 444	– 6 723	– 8 132
Depreciation	2 933	– 241	2 692	2 870	3 135
Total – Consolidated entities	**– 4 387**	**– 365**	**– 4 752**	**– 3 853**	**– 4 997**
CONSOLIDATED					
Level of investment	– 7 838	– 99	– 7 937	– 7 246	– 8 665
Depreciation	3 185	– 342	2 843	3 024	3 292
Total – Consolidated	**– 4 653**	**– 441**	**– 5 094**	**– 4 222**	**– 5 373**

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing.

APPENDIX 1: DETAILS OF THE 2010-2015 QUÉBEC INFRASTRUCTURES PLAN

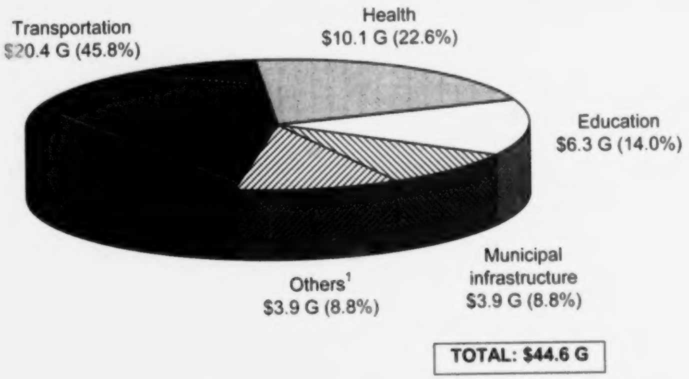
☐ Breakdown by activity sector

Investments of $44.6 billion from 2010-2011 to 2014-2015 under the Québec Infrastructures Plan are distributed among the various sectors of government activity:

- $20.4 billion in transportation infrastructure (road network, public transit and maritime infrastructure);
- $10.1 billion in health infrastructure;
- $6.3 billion in education infrastructure;
- $3.9 billion in municipal infrastructure;
- $3.9 billion in other sectors (culture, social housing, research, justice and public security, agriculture, public dams and forest roads).

CHART C.7

Breakdown of investments under the 2010-2015 Québec Infrastructures Plan by activity sector
(Québec government contribution)



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[1] Includes investments in culture, social housing, research, justice and public security, agriculture, public dams and forest roads.

TABLE C.33

Breakdown of investments under the 2010-2015 Québec Infrastructures Plan by activity sector

(Québec government contribution, millions of dollars)

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Road network	3 416.5	3 457.2	3 414.1	3 249.8	3 323.3	**16 860.9**
Public transit	534.5	984.8	623.7	413.6	396.5	**2 953.1**
Maritime infrastructure	99.6	147.3	158.0	152.1	25.0	**582.0**
Health and social services	1 714.1	1 961.6	1 951.8	2 212.1	2 234.8	**10 074.4**
Education	1 367.3	1 405.9	1 222.2	1 130.7	1 128.1	**6 254.2**
Culture	439.4	185.5	186.1	161.8	170.1	**1 142.9**
Municipal infrastructure	831.3	710.8	774.9	756.8	796.0	**3 869.8**
Social housing	212.3	264.9	312.7	173.8	100.5	**1 064.2**
Research	106.1	80.8	168.7	80.8	80.8	**517.2**
Justice and public security	166.8	299.7	284.0	191.6	80.6	**1 022.7**
Other[1]	47.0	55.3	39.8	33.0	39.3	**214.4**
TOTAL	**8 934.9**	**9 553.8**	**9 136.0**	**8 556.1**	**8 375.0**	**44 555.8**

[1] Agriculture, public dams and forest roads.

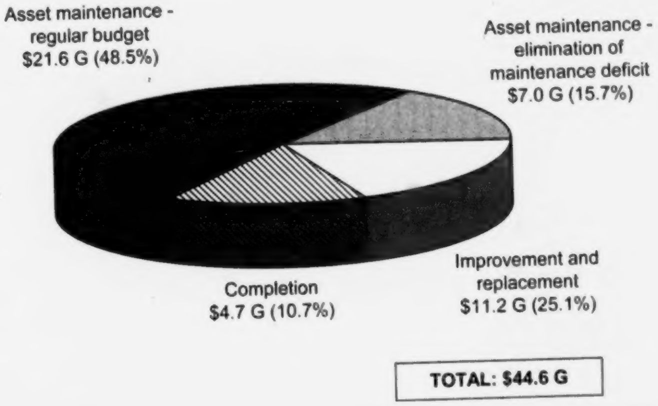
☐ Breakdown by type of investment

These investments include funds allocated to maintaining assets and improving and replacing infrastructure, as well as completing projects started before the first five-year plan came into effect.

The investment budget for maintaining assets comprises the regular budget needed to meet recognized asset maintenance standards (ranging from 1% to 3% of assets' replacement value, depending on the sector) and investments allocated to eliminating the infrastructure maintenance deficit over 15 years as prescribed by the *Act to promote the maintenance and renewal of public infrastructures*.

CHART C.8

Breakdown of investments under the 2010-2015 Québec Infrastructures Plan by type of investment[1]
(Québec government contribution)



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[1] The difference between the total of the investments shown here and total investments under the 2010-2015 Québec Infrastructures Plan is due to rounding of the annual amounts.

TABLE C.34

Breakdown of investments under the 2010-2015 Québec Infrastructures Plan by activity sector and type of investment

(Québec government contribution, millions of dollars)

	Asset maintenance				
	Regular budget	**Elimination of maintenance deficit**	**Improvement and replacement**	**Project completion**	**Total**
Road network	9 434.6	1 957.7	2 671.8	2 796.8	**16 860.9**
Public transit	1 188.0	588.4	717.9	458.8	**2 953.1**
Maritime infrastructure	—	—	582.0	—	**582.0**
Health and social services	4 428.5	786.7	4 340.9	518.3	**10 074.4**
Education	4 344.3	1 176.7	727.0	6.2	**6 254.2**
Culture	617.3	250.7	163.5	111.4	**1 142.9**
Municipal infrastructure	785.2	2 024.2	395.4	665.0	**3 869.8**
Social housing	279.4	216.8	380.1	187.9	**1 064.2**
Research	—	—	517.2	—	**517.2**
Justice and public security	340.1	—	682.6	—	**1 022.7**
Other[1]	192.7	—	21.7	—	**214.4**
TOTAL	**21 610.1**	**7 001.2**	**11 200.1**	**4 744.4**	**44 555.8**

[1] Agriculture, public dams and forest roads.

APPENDIX 2: INVESTMENT PROJECTS BY GOVERNMENT ENTERPRISES

Certain government enterprises will continue to make substantial investments that will contribute to Québec's economic prosperity. In 2011-2012, investments by these corporations will increase by $442 million compared with 2010-2011 and reach $4 928 million. They will climb again by nearly $750 million in 2012-2013, to $5 677 million.

☐ Hydro-Québec

Hydro-Québec will boost its investments by $389 million in 2011 compared with the previous year, for a total of $4 609 million. In 2012, its investments will grow by $648 million, to $5 257 million.

The funds devoted to the La Romaine complex will reach $543 million in 2011 and $872 million in 2012. As well, $512 million will be allocated to the Eastmain-1-A/Sarcelle/Rupert project in 2011. In addition to making a significant contribution to Québec's economy, these two projects will play an important role in securing Québec's energy future.

Renovation work on the Gentilly-2 power station will also generate major economic spinoffs, as $150 million will be devoted to this project in 2011 and $409 million in 2012.

Substantial amounts will also be allocated to boost Québec's energy efficiency, with spending in this regard amounting to $386 million in 2011 and $425 million in 2012.

Hydro-Québec's other projects will also have significant spinoffs in Québec. Overall, the investments devoted to these projects will reach $2 723 million in 2011 and $3 047 million in 2012.

❑ Loto-Québec and the Société des alcools du Québec

Loto-Québec and the Société des alcools du Québec will also increase their investments through various projects.

Loto-Québec's investments will reach $254 million in 2011-2012 and $375 million in 2012-2013. Of these amounts, $127 million will be allocated to the Casino de Montréal renovation project in 2011-2012 and $92 million will be invested in the project in 2012-2013. In 2012-2013 as well, $236 million will also be invested to replace video lottery machines that have reached the end of their useful life.

The Société des alcools du Québec will increase its investments to $65 million in 2011-2012, compared with $55 million in 2010-2011. These investments will be devoted mainly to developing or expanding its outlets, to real estate projects related to its corporate buildings, and to its computer resources. In 2012-2013, the Société plans to invest $45 million.

TABLE C.35

Forecast investment by government enterprises

(millions of dollars)

	2010-2011	2011-2012	2012-2013
HYDRO-QUÉBEC[1]			
Major projects			
Eastmain-1-A/Sarcelle/Rupert	794.0	512.0	119.0
Gentilly-2 – Repair project	282.0	150.0	409.0
La Romaine complex	387.0	543.0	872.0
Transmission integration – Wind turbines (990 MW and 2 000 MW)	92.0	295.0	385.0
Global Energy Efficiency Plan	216.0	386.0	425.0
Subtotal – Major projects	**1 771.0**	**1 886.0**	**2 210.0**
Other projects	2 449.0	2 723.0	3 047.0
Total – Hydro-Québec	**4 220.0**	**4 609.0**	**5 257.0**
LOTO-QUÉBEC			
Casino de Montréal	89.8	126.6	91.9
Video lottery machines	45.4	43.2	235.9
Other projects	75.4	84.1	46.8
Total – Loto-Québec	**210.6**	**253.9**	**374.6**
SOCIÉTÉ DES ALCOOLS DU QUÉBEC			
Outlet network	15.5	17.6	10.8
Other projects[2]	39.5	47.4	34.2
Total – Société des alcools du Québec	**55.0**	**65.0**	**45.0**
TOTAL INVESTMENTS	**4 485.6**	**4 927.9**	**5 676.6**

1 For the fiscal year ending December 31.

2 Amount including, in 2010-2011, the expansion of the Québec City distribution centre ($11 million).

APPENDIX 3: RESTATEMENT OF THE FINANCIAL FRAMEWORK OF THE 2010-2011 BUDGET TO TAKE INTO ACCOUNT THE CREATION OF FORT AND FRAF

The following table presents the government's five-year financial framework as published in the 2010-2011 Budget. It incorporates the measures identified in the plan to restore fiscal balance. The following pages present the impact of the implementation of FORT and FRAF on the financial framework so as to make the framework comparable with that of the 2011-2012 Budget.

TABLEAU C.36

Financial framework of the 2010-2011 Budget
(millions of dollars)

	Preliminary data	Forecasts		Projections		
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Budgetary revenue						
Own-source revenue	47 421	50 152	53 840	57 563	60 333	62 703
% change	*– 3.0*	*5.8*	*7.4*	*6.9*	*4.8*	*3.9*
Federal transfers[1]	15 229	15 325	14 681	14 933	15 395	15 979
% change	*8.6*	*0.6*	*– 4.2*	*1.7*	*3.1*	*3.8*
Total budgetary revenue	**62 650**	**65 477**	**68 521**	**72 496**	**75 728**	**78 682**
% change	***– 0.4***	***4.5***	***4.6***	***5.8***	***4.5***	***3.9***
Budgetary expenditure						
Program spending	– 60 769	– 62 561	– 63 907	– 65 282	– 66 686	– 69 282
% change	*3.8*	*2.9*	*2.2*	*2.2*	*2.2*	*3.9*
Debt service	– 6 154	– 6 980	– 7 832	– 8 749	– 9 588	– 9 737
% change	*– 5.4*	*13.4*	*12.2*	*11.7*	*9.6*	*1.6*
Total budgetary expenditure	**– 66 923**	**– 69 541**	**– 71 739**	**– 74 031**	**– 76 274**	**– 79 019**
% change	***2.9***	***3.9***	***3.2***	***3.2***	***3.0***	***3.6***
Net results of consolidated entities	**598**	**750**	**979**	**1 072**	**618**	**828**
Contingency reserve	– 300	– 300				
Other measures to be identified in the plan to restore fiscal balance			311	324	1 051	1 051
SURPLUS (DEFICIT)	**– 3 975**	**– 3 614**	**– 1 928**	**– 139**	**1 123**	**1 542**
Deposits in the Generations Fund	– 715	– 892	– 972	– 1 061	– 1 123	– 1 542
Stabilization reserve	433					
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 257**	**– 4 506**	**– 2 900**	**– 1 200**	**0**	**0**

[1] The fiscal arrangements legislation, which determines the payment formulas for equalization, the Canada Health Transfer and the Canada Social Transfer, is in force until 2013-2014. The projection for these transfers as of 2014-2015 was made using the formulas currently in effect.

❑ Impact of the implementation of FORT and FRAF

In its last budget, the government announced the creation of the following funds:

- FORT, which provides in particular that the fuel tax, as well as driver's licence and registration fees, will be allocated to funding its infrastructures;
- FRAF, which will be used to finance the Agence du revenu du Québec. The *Act respecting the Agence du revenu du Québec* also stipulates that from now on the allowance for doubtful accounts will be accounted for by applying it against budgetary revenue.

It is important to note that the government created these funds in order to improve the budgetary management of certain government activities. Use of dedicated funds make it possible, for example, to better finance certain types of activities such as those related to the administration of the tax system, or to facilitate the use of the user-payer principle in such cases as the funding of land transportation infrastructure.

The allocation of FORT and FRAF revenue and expenditure to the government's consolidated entities does not affect the government's budgetary balance. However, it modifies the level of own-source revenue and program spending.

Creation of FORT and FRAF

Given that FORT and FRAF are distinct accounting entities financed by dedicated revenues, most of the funds associated with these funds will no longer be included in both own-source revenue and program spending. For purposes of comparison, the budgetary data for 2009-2010 and 2010-2011 have been restated.

Therefore, the level of own-source revenue excluding government enterprises in 2010-2011 is reduced by $3 119 million, to $42 543 million.

Impact of the implementation of FORT and FRAF on own-source revenue excluding government enterprises
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
OWN-SOURCE REVENUE IN THE 2010-2011 BUDGET	**42 819**	**45 662**	**49 103**	**52 661**	**55 271**	**57 247**
% change	−2.4	6.6	7.5	7.2	5.0	3.6
FORT	− 2 389	− 2 512	− 2 697	− 2 889	− 3 077	− 3 126
FRAF	− 575	− 607	− 723	− 760	− 797	− 815
Subtotal	− 2 964	− 3 119	− 3 420	− 3 649	− 3 874	− 3 941
OWN-SOURCE REVENUE AFTER THE IMPLEMENTATION OF FORT AND FRAF	**39 855**	**42 543**	**45 596**[1]	**49 012**	**51 397**	**53 306**
% change	−2.7	6.7	7.2	7.5	4.9	3.7

[1] Including $87 million in non-recurring extraordinary expenditures of FRAF.

Creation of FORT and FRAF (cont.)

The creation of these two funds reduces program spending by $2 600 million, to $59 961 million, for 2010-2011. As a result, spending growth falls from 2.9% to 2.5% in 2010-2011. This decrease in the growth rate compared with the forecast rate of 2.9% stems from the fact that the commitments provided for under FORT increase by 16.2%, a rate much higher than the growth in other spending.

Impact of the implementation of FORT and FRAF on program spending
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
PROGRAM SPENDING IN THE 2010-2011 BUDGET	**60 769**	**62 561**	**63 907**	**65 282**	**66 686**	**69 282**
% change	3.8	2.9	2.2	2.2	2.2	3.9
FORT	– 1 715	– 1 993	– 2 392	– 2 784	– 3 164	– 3 501
FRAF	– 575	– 607	– 723	– 760	– 797	– 815
Subtotal	– 2 290	– 2 600	– 3 115	– 3 544	– 3 961	– 4 316
PROGRAM SPENDING AFTER THE IMPLEMENTATION OF FORT AND FRAF	**58 479**	**59 961**	**60 792**	**61 738**	**62 725**	**64 966**
% change	*4.0*	*2.5*	*1.4*	*1.6*	*1.6*	*3.6*

The impact of the implementation of FORT and FRAF on the results of consolidated entities is due exclusively to the fact that the difference between FORT revenue and expenditure has been taken into account. Overall, therefore, the creation of these two funds does not have an impact on the government's budgetary balance.

Impact of the implementation of FORT and FRAF on the net results of consolidated entities
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
NET RESULTS IN THE 2010-2011 BUDGET	**598**	**750**	**979**	**1 072**	**618**	**828**
FORT[1]	674	519	305	105	– 87	– 375
FRAF	—	—	—	—	—	—
Subtotal	674	519	305	105	– 87	– 375
NET RESULTS AFTER THE IMPLEMENTATION OF FORT AND FRAF	**1 272**	**1 269**	**1 371**[2]	**1 177**	**531**	**453**

[1] The Fonds de conservation et d'amélioration du réseau routier, Fonds pour la vente de biens et de services du MTQ, Fonds des partenariats en matière d'infrastructures de transport and Fonds des contributions des automobilistes au transport en commun have been replaced by FORT. Since these entities have always balanced their revenue and expenditure, their exclusion from the net results of non-budget-funded bodies and special funds does not entail an adjustment of net results following the implementation of FORT.

[2] Excluding $87 million in non-recurring extraordinary expenditures of FRAF.

Creation of FORT and FRAF (cont.)

Impact on the budgetary balance
(millions of dollars)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Own-source revenue						
FORT	– 2 389	– 2 512	– 2 697	– 2 889	– 3 077	– 3 126
FRAF	– 575	– 607	– 723	– 760	– 797	– 815
Subtotal	– 2 964	– 3 119	– 3 420	– 3 649	– 3 874	– 3 941
Program spending						
FORT	1 715	1 993	2 392	2 784	3 164	3 501
FRAF	575	607	723	760	797	815
Subtotal	2 290	2 600	3 115	3 544	3 961	4 316
Consolidated entities						
FORT	674	519	305	105	– 87	– 375
FRAF	—	—	—	—	—	—
Subtotal	674	519	305	105	– 87	– 375
TOTAL	**0**	**0**	**0**	**0**	**0**	**0**

The following table presents the 2010-2011 five-year financial framework in order to take into account the implementation of FORT and FRAF.

TABLE C.37

Restated financial framework of the 2010-2011 Budget taking into account the creation of FORT and FRAF – Basis comparable to that of the 2011-2012 Budget

(millions of dollars)

	Preliminary data	Forecasts		Projections		
	2009-10	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
Budgetary revenue						
Own-source revenue	44 457	47 033	50 333	53 914	56 459	58 762
% change	*– 3.3*	*5.8*	*7.0*	*7.1*	*4.7*	*4.1*
Federal transfers[1]	15 229	15 325	14 681	14 933	15 395	15 979
% change	*8.6*	*0.6*	*– 4.2*	*1.7*	*3.1*	*3.8*
Total budgetary revenue	**59 686**	**62 358**	**65 101**	**68 847**	**71 854**	**74 741**
% change	***– 0.4***	***6.1***	***4.4***	***5.9***	***4.4***	***4.0***
Budgetary expenditure						
Program spending	– 58 479	– 59 961	– 60 792	– 61 738	– 62 725	– 64 966
% change	*4.0*	*2.5*	*1.4*	*1.6*	*1.6*	*3.6*
Debt service	– 6 154	–6 980	– 7 832	– 8 749	– 9 588	– 9 737
% change	*– 5.4*	*13.4*	*12.2*	*11.7*	*9.6*	*1.6*
Total budgetary expenditure	**– 64 633**	**– 66 941**	**– 68 624**	**– 70 487**	**– 72 313**	**– 74 703**
% change	***2.9***	***3.6***	***2.5***	***2.7***	***2.6***	***3.3***
Net results of consolidated entities	**1 272**	**1 269**	**1 371**	**1 177**	**531**	**453**
Contingency reserve	– 300	– 300				
Measures to be identified	—	—	311	324	1 051	1 051
SURPLUS (DEFICIT)	**– 3 975**	**– 3 614**	**– 1 928**	**– 139**	**1 123**	**1 542**
Deposits in the Generations Fund	– 715	– 892	– 972	– 1 061	– 1 123	– 1 542
Stabilization reserve	433					
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 257**	**– 4 506**	**– 2 900**	**– 1 200**	**0**	**0**

[1] The fiscal arrangements legislation, which determines the payment formulas for equalization, the Canada Health Transfer and the Canada Social Transfer, is in force until 2013-2014. The projection for these transfers as of 2014-2015 was made using the formulas currently in effect.

The following table presents the 2010-2011 five-year financial framework in order to take into account the implementation of FORT and FRAF and the reclassification of the allowance for doubtful accounts.

TABLE C.38

Restated financial framework of the 2010-2011 Budget taking into account the creation of FORT and FRAF and the reclassification of the allowance for doubtful accounts – Basis comparable to that of the 2011-2012 Budget
(millions of dollars)

	Preliminary data	Forecasts		Projections		
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Budgetary revenue						
Own-source revenue	43 557	46 133	49 483	53 064	55 609	57 912
% change	*– 3.6*	*5.9*	*7.3*	*7.2*	*4.8*	*4.1*
Federal transfers[1]	15 229	15 325	14 681	14 933	15 395	15 979
% change	*8.6*	*0.6*	*– 4.2*	*1.7*	*3.1*	*3.8*
Total budgetary revenue	**58 786**	**61 458**	**64 164**	**67 997**	**71 004**	**73 891**
% change	***– 0.7***	***4.5***	***4.4***	***6.0***	***4.4***	***4.1***
Budgetary expenditure						
Program spending	– 57 579	– 59 061	– 59 942	– 60 888	– 61 875	– 64 116
% change	*3.9*	*2.6*	*1.5*	*1.6*	*1.6*	*3.6*
Debt service	– 6 154	–6 980	– 7 832	– 8 749	– 9 588	– 9 737
% change	*– 5.4*	*13.4*	*12.2*	*11.7*	*9.6*	*1.6*
Total budgetary expenditure	**– 63 733**	**– 66 041**	**– 67 774**	**– 69 637**	**– 71 463**	**– 73 853**
% change	***2.9***	***3.6***	***2.6***	***2.7***	***2.6***	***3.3***
Net results of consolidated entities	**1 272**	**1 269**	**1 371**	**1 177**	**531**	**453**
Contingency reserve	– 300	– 300				
Measures to be identified	—	—	311	324	1 051	1 051
SURPLUS (DEFICIT)	**– 3 975**	**– 3 614**	**– 1 928**	**– 139**	**1 123**	**1 542**
Deposits in the Generations Fund	– 715	– 892	– 972	– 1 061	– 1 123	– 1 542
Stabilization reserve	433					
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*	**– 4 257**	**– 4 506**	**– 2 900**	**– 1 200**	**0**	**0**

[1] The fiscal arrangements legislation, which determines the payment formulas for equalization, the Canada Health Transfer and the Canada Social Transfer, is in force until 2013-2014. The projection for these transfers as of 2014-2015 was made using the formulas currently in effect.

Section D

Debt, Financing and Debt Management

1. **DEBT** **D.3**

   1.1 Debt representing accumulated deficits D.3

   1.2 Gross debt D.5

      1.2.1 Net retirement plans liability D.6

      1.2.2 Net employee future benefits liability D.7

      1.2.3 Change in gross debt in 2010-2011 .... D.8

      1.2.4 Debt burden D.11

      1.2.5 Debt reduction objectives D.12

   1.3 Public sector debt D.14

   1.4 Comparison of the debt of Canadian provinces D.15

   1.5 Retirement plans D.17

   1.6 Retirement Plans Sinking Fund D.21

   1.7 Employee future benefits D.26

   1.8 Generations Fund D.27

   1.9 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances D.29

      1.9.1 Retirement Plans Sinking Fund D.29

      1.9.2 Generations Fund D.31

      1.9.3 Accumulated Sick Leave Fund D.32

   1.10 Impact of the returns of the Retirement Plans Sinking Fund on debt service D.34

2. FINANCING D.37

2.1 Financing strategy D.37

2.1.1 Diversification by market D.37

2.1.2 Diversification by instrument D.38

2.1.3 Diversification by maturity D.39

2.2 Financing program D.40

2.2.1 Yield D.43

3. DEBT MANAGEMENT D.45

3.1 Structure of the debt by currency D.45

3.2 Structure of the debt by interest rate D.47

4. CREDIT RATINGS D.49

4.1 The Québec government's credit ratings D.49

4.2 Comparison of the credit ratings of Canadian provinces D.54

5. ADDITIONAL INFORMATION D.57

1. DEBT

Several concepts of debt can be used to measure a government's indebtedness. The following table presents data on the Québec government's debt according to the two main concepts the government employs, namely, gross debt and debt representing accumulated deficits.

TABLE D.1

Debt of the Québec government as at March 31
(millions of dollars)

	2010	2011P	2012P	2013P	2014P	2015P	2016P
GROSS DEBT[1]	**163 318**	**173 429**	**183 770**	**190 962**	**196 086**	**201 899**	**207 298**
As a % of GDP	*53.8*	*54.7*	*55.7*	*55.5*	*54.7*	*54.1*	*53.6*
Less: Financial assets, net of other liabilities	– 13 218	– 14 434	– 17 693	– 19 059	– 20 089	– 21 853	– 23 656
Less: Non-financial assets	– 42 483	– 47 577	– 51 799	– 57 172	– 62 374	– 67 971	– 73 568
DEBT REPRESENTING ACCUMULATED DEFICITS	**107 617**	**111 418**	**114 278**	**114 731**	**113 623**	**112 075**	**110 074**
As a % of GDP	***35.4***	***35.1***	***34.7***	***33.3***	***31.7***	***30.0***	***28.5***

P: Preliminary results for 2011 and forecasts for subsequent years.
Note: The data take into account the line-by-line consolidation of the results of network institutions with those of the government in 2009-2010.
1 The gross debt excludes pre-financing.

1.1 Debt representing accumulated deficits

Debt representing accumulated deficits is a simple concept that reflects the financial position of a government well, since it takes all of its liabilities and assets into account. The federal government and the governments of Ontario and Alberta use debt representing accumulated deficits as a measure of indebtedness in their budget documents.

The debt representing accumulated deficits corresponds to the difference between the government's liabilities and its financial and non-financial assets as a whole. The debt representing accumulated deficits is calculated by subtracting financial assets, net of other liabilities, as well as non-financial assets from the gross debt.

Preliminary results show that the debt representing accumulated deficits should amount to $111 418 million as at March 31, 2011, or 35.1% of gross domestic product (GDP).

The debt representing accumulated deficits as at March 31, 2011 has been restated to take into account the reassessment of obligations stemming from the remediation of contaminated land under the responsibility of the government. An additional amount of $333 million has thus been recorded as an environmental liability.

Between 2011-2012 and 2015-2016, the debt representing accumulated deficits is expected to decline by $1.3 billion. This decrease is due to the growth of $6.6 billion in the Generations Fund, although this growth will be offset in part by the $5.3-billion deficits posted in 2011-2012 and 2012-2013. The debt representing accumulated deficits will stop rising once the budget is balanced in 2013-2014. It will then decline year after year at the rate of increase of the Generations Fund.

TABLE D.2

Factors responsible for growth in the debt representing accumulated deficits

(millions of dollars)

	Debt, beginning of year	**Budgetary deficit**	**Generations Fund**	**Restatement**	**Total change**	**Debt, end of year**	**As a % of GDP**
2010-2011^P	107 617	4 200	– 732	333[1]	3 801	111 418	35.1
2011-2012^P	111 418	3 800	– 940	—	2 860	114 278	34.7
2012-2013^P	114 278	1 500	– 1 047	—	453	114 731	33.3
2013-2014^P	114 731	—	– 1 108	—	– 1 108	113 623	31.7
2014-2015^P	113 623	—	– 1 548	—	– 1 548	112 075	30.0
2015-2016^P	112 075	—	– 2 001	—	– 2 001	110 074	28.5

P: Preliminary results for 2010-2011 and forecasts for subsequent years.

[1] This amount corresponds to the restatement made in respect of the reassessment of obligations stemming from the remediation of contaminated land (environmental liability).

1.2 Gross debt

The gross debt corresponds to the sum of the debt contracted on financial markets and the net liability for the retirement plans and for employee future benefits of public and parapublic sector employees, minus the balance of the Generations Fund.

Preliminary results show that, as at March 31, 2011, the gross debt should stand at $173 429 million, or 54.7% of GDP. As at March 31, 2016, the gross debt is expected to be $207 298 million, or 53.6% of GDP.

TABLE D.3

Gross debt as at March 31
(millions of dollars)

	2010	2011[P]	2012[P]	2013[P]	2014[P]	2015[P]	2016[P]
Consolidated direct debt[1]	136 074	147 666	158 314	165 881	171 309	178 229	185 394
Plus: Net retirement plans liability	29 789	29 093	29 776	30 477	31 281	31 722	31 957
Plus: Net employee future benefits liability	132	79	29	—	—	—	—
Less: Generations Fund	– 2 677	– 3 409	– 4 349	– 5 396	– 6 504	– 8 052	– 10 053
GROSS DEBT[1]	**163 318**	**173 429**	**183 770**	**190 962**	**196 086**	**201 899**	**207 298**
As a % of GDP	***53.8***	***54.7***	***55.7***	***55.5***	***54.7***	***54.1***	***53.6***

P: Preliminary results for 2011 and forecasts for subsequent years.

[1] The consolidated direct debt and the gross debt exclude pre-financing.

The consolidated direct debt represents the debt that has been contracted on financial markets. It includes the government's debt and the debt of entities whose results are consolidated line by line with those of the government. As at March 31, 2011, the consolidated direct debt is expected to total $147 666 million.

The main consolidated entities are Financement-Québec, the Fonds des réseaux de transport terrestre, the Société immobilière du Québec and Immobilière SHQ.

As at March 31, 2011, the net retirement plans liability should amount to $29 093 million and the net employee future benefits liability should be $79 million.

As at March 31, 2011, the sums accumulated in the Generations Fund are expected to amount to $3 409 million.

1.2.1 Net retirement plans liability

The net retirement plans liability is calculated by subtracting from the retirement plans liability the balance of the Retirement Plans Sinking Fund (RPSF), an asset established to pay the retirement benefits of public and parapublic sector employees.

The liability for the retirement plans represents the present value of the retirement benefits that the government will pay to public and parapublic sector employees, taking into account the conditions of their plans and their years of service. This liability should stand at $71 371 million as at March 31, 2011.

The government created the RPSF in 1993. As at March 31, 2011, the book value of the RPSF is expected to be $42 278 million.

The net liability for the retirement plans should total $29 093 million as at March 31, 2011.

TABLE D.4

Net retirement plans liability as at March 31, 2011^{P}
(millions of dollars)

Retirement plans liability:	
Government and Public Employees Retirement Plan (RREGOP)	40 934
Pension Plan of Management Personnel (PPMP)	9 331
Other plans[1]	21 106
Subtotal	**71 371**
Less: Retirement Plans Sinking Fund	– 42 278
NET RETIREMENT PLANS LIABILITY	**29 093**

P: Preliminary results.

[1] Takes into account, among other things, the assets of the pension plan of the Université du Québec.

1.2.2 Net employee future benefits liability

The government records under its debt the value of its commitments regarding future benefits programs for its employees, namely, accumulated sick leave and pensions paid to the survivors of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

As at March 31, 2011, the value of the assets established to pay for employee future benefits programs should amount to $1 156 million.

Given that assets have been established to cover future disbursements, the net employee future benefits liability is expected to be $79 million as at March 31, 2011.

TABLE D.5

Net employee future benefits liability as at March 31, 2011P

(millions of dollars)

Accumulated sick leave		664
Survivor's pension plan		407
Université du Québec programs		164
Subtotal		**1 235**
Less:	Accumulated Sick Leave Fund	– 700
	Survivor's Pension Plan Fund	– 456
Subtotal		**– 1 156**
NET EMPLOYEE FUTURE BENEFITS LIABILITY		**79**

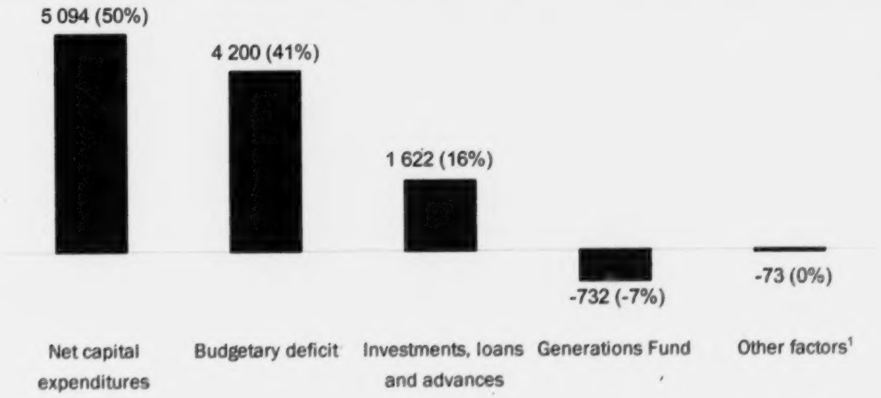
P: Preliminary results.

1.2.3 Change in gross debt in 2010-2011

In 2010-2011, the government's gross debt should increase by $10 111 million.

CHART D.1

Factors responsible for growth in the gross debt in 2010-2011
(millions of dollars)



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[1] Other factors include in particular the change in "Other accounts", such as accounts receivable and accounts payable, as well as the change in the value of the debt in foreign currency.

The gross debt is increasing in 2010-2011 for the following reasons:

- The budgetary deficit of $4 200 million.
- Government investments in fixed assets (e.g. roads) that require borrowings. When these capital expenditures are made, they are posted to the government's balance sheet. Subsequently, they are gradually recorded as expenditures based on the useful life of the assets concerned. In 2010-2011, net capital expenditures should cause the gross debt to increase by $5 094 million.
- Government investments in its corporations. These investments are made through advances and direct capital outlays or by allowing these corporations to keep part of their earnings to finance their own investments.

  For example, Hydro-Québec pays 75% of its net earnings[1] as dividends to the government and keeps 25% to fund its own investments, particularly hydroelectric dams. The portion of earnings that the government is leaving Hydro-Québec in 2010-2011 ($554 million) constitutes an investment by the government in Hydro-Québec, which creates a financial requirement for the government and thus leads to an increase in the gross debt.

  Overall, the government's investments, loans and advances should lead to a $1 622-million increase in the gross debt in 2010-2011.
- Changes in some of the government's other asset and liability items, such as accounts payable and accounts receivable, which should reduce the gross debt by $73 million in 2010-2011.
- Lastly, deposits in the Generations Fund, which should reduce the debt by $732 million in 2010-2011.

The following table shows how the government's gross debt has changed since March 31, 1998.

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[1] The amount of the dividend is calculated according to section 15.2 of the *Act respecting Hydro-Québec*, which stipulates that:

"The distributable surplus for a financial period is equal to 75% of the Company's net profit. The net profit is computed on the basis of the annual consolidated financial statements established according to generally accepted accounting principles. However, no dividend may be declared in respect of a financial period if the payment thereof would result in a reduction of the rate of capitalization of the Company to less than 25% at the end of that period."

As of 2009-2010, following the line-by-line consolidation of the results of network institutions with those of the government, the data for the gross debt include the debt that network institutions have contracted in their own name. Therefore, the gross debt for 2009-2010 and that for subsequent years are not comparable with that for 2008-2009 and previous years.

TABLE D.6

Growth factors of the Québec government's gross debt

(millions of dollars)

	Debt, beginning of year	Budgetary deficit (surplus)	Investments, loans and advances	Net investment in the networks[1]	Net capital Expenditures[2]	Other Factors[3]	Generations Fund[4]	Total change	Debt, end of year[5]	As a % of GDP
With networks consolidated at modified equity value[6]										
1998-1999	111 525	– 126	1 312	761	396	1 564		3 907	115 432	58.8
1999-2000	115 432	– 7	1 989	122	200	– 975		1 329	116 761	55.4
2000-2001	116 761	– 427	1 701	841	578	1 108		3 801	120 562	53.6
2001-2002	120 562	– 22	1 248	934	1 199	– 9		3 350	123 912	53.5
2002-2003	123 912	728	1 921	631	1 706	237		5 223	129 135	53.5
2003-2004	129 135	358	1 367	560	1 186	625		4 096	133 231	53.1
2004-2005	133 231	664	1 303	1 486	1 006	– 796		3 663	136 894	52.1
2005-2006	136 894	– 37	1 488	1 013	1 179	– 809		2 834	139 728	51.4
2006-2007	139 728	– 109	2 213	1 002	1 177	1 078	– 584	4 777	144 505	51.2
2007-2008	144 505	—	2 658	487	1 457	767	– 649	4 720	149 225	50.4
2008-2009	149 225	—	966	622	2 448	– 28	– 719	3 289	152 514	50.4
With networks consolidated line by line										
2009-2010	157 630	3 174	2 009		4 226	– 2 996	– 725	5 688	163 318	53.8
2010-2011[P]	163 318	4 200	1 622		5 094	– 73	– 732	10 111	173 429	54.7
2011-2012[P]	173 429	3 800	2 024		4 222	1 235	– 940	10 341	183 770	55.7
2012-2013[P]	183 770	1 500	1 101		5 373	265	– 1 047	7 192	190 962	55.5
2013-2014[P]	190 962	—	1 043		5 202	– 13	– 1 108	5 124	196 086	54.7
2014-2015[P]	196 086	—	1 231		5 597	533	– 1 548	5 813	201 899	54.1
2015-2016[P]	201 899	—	1 307		5 597	496	– 2 001	5 399	207 298	53.6

P: Preliminary results for 2010-2011 and forecasts for subsequent years.

Note: A positive entry indicates an increase in the debt and a negative entry, a decrease.

1 The net investment in the networks includes mainly loans by Financement-Québec and the Corporation d'hébergement du Québec to institutions in the health and social services and education networks. As of 2006-2007, the net investment in the networks also includes the change in the accumulated deficits of network institutions.

2 These amounts correspond to investments in fixed assets made during the year less the yearly depreciation expenditure. They include in particular investments made in the course of private-public partnership agreements.

3 Other factors include in particular the change in "Other accounts", such as accounts receivable and accounts payable, as well as the change in the value of the debt in foreign currency.

4 These amounts represent the increase in the balance of the Generations Fund during the fiscal year stemming from deposits in the fund and investment income.

5 The gross debt excludes pre-financing.

6 The data for 1998-1999 to 2008-2009 could not be restated to take into account the line-by-line consolidation of the network institutions' results with those of the government. Therefore, the data for 2009-2010 to 2015-2016 are not comparable with those for previous years. The line-by-line consolidation of the results of network institutions with those of the government increased the gross debt by $5 116 million as at March 31, 2009. This amount corresponds to the debt of the health and social services and education networks contracted in their own name as at March 31, 2009.

1.2.4 Debt burden

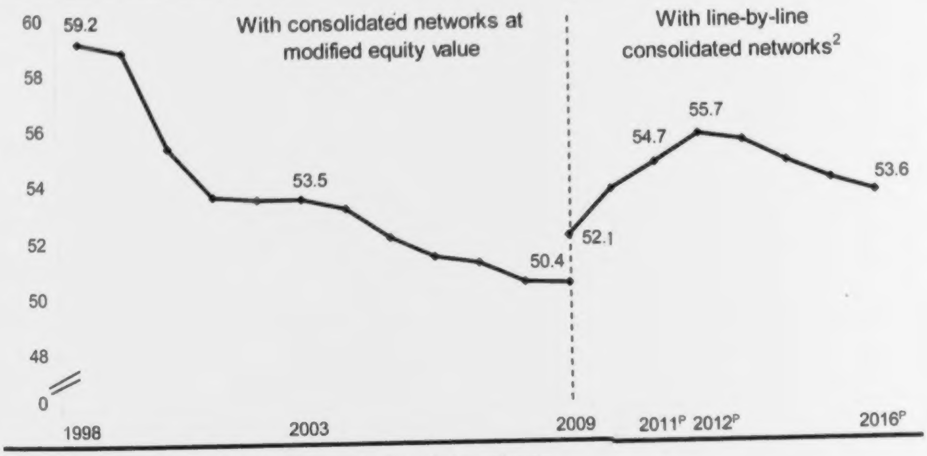
One way to measure the extent of the government's indebtedness is to compare its debt to the size of the economy, i.e. GDP. The debt/GDP ratio is then calculated. GDP represents the total value of goods and services produced in an economy during a given period. It is the source of the revenue the government collects to fund its activities, including payment of debt service. The comparison of the government's debt to GDP is similar, for example, to the case of a person who wants to borrow to buy a house. The amount of the person's debt (mortgage, car loan, etc.) is compared to his or her income to assess his or her level of indebtedness.

Since March 31, 1998, the Québec government's gross debt/GDP ratio has fallen significantly. While the gross debt was equivalent to 59.2% of GDP as at March 31, 1998, this percentage stood at 50.4% as at March 31, 2009. The line-by-line consolidation of the network institutions' results with those of the government raised the debt/GDP ratio to 52.1% as at March 31, 2009.

The ratio is expected to reach 55.7% as at March 31, 2012, mainly because of capital investments. The gross debt/GDP ratio should then decline to 53.6% as at March 31, 2016.

CHART D.2

Gross debt[1] as at March 31
(as a percentage of GDP)



P: Preliminary results for 2011 and forecasts for subsequent years.

[1] The gross debt excludes pre-financing.

[2] The gross debt takes into account the debt that the health and social services and education networks have contracted in their own name. Therefore, the data for 2009 to 2016 are not comparable with those for 1998 to 2008, which do not include this debt.

1.2.5 Debt reduction objectives

In last year's budget, the government set two debt reduction objectives.

The first objective concerns the debt representing accumulated deficits. This debt corresponds to "bad debt", or debt that does not correspond to any assets. As at March 31, 2011, it should stand at $111.4 billion, or 35.1% of GDP.

— The government's objective is to reduce this ratio to 17% in 2025-2026. This is a maximum level.

The second objective concerns the gross debt. As at March 31, 2011, the government's gross debt should amount to $173.4 billion, or 54.7% of GDP. It is forecast to reach a maximum of 55.7% of GDP in 2011-2012 and to begin falling thereafter.

— The government's objective is to bring the gross debt/GDP ratio down to 45% in 2025-2026. Once again, this is a maximum level.

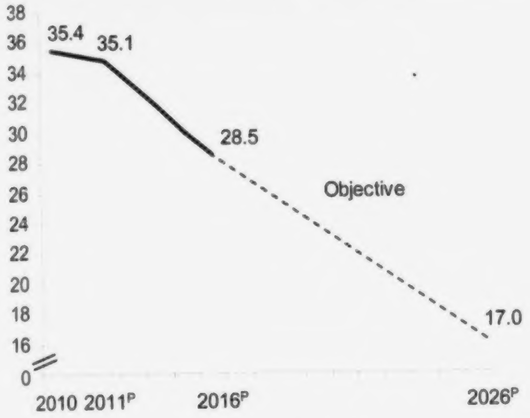
To achieve these objectives, the government will gradually raise the price of heritage pool electricity starting in 2014-2015. This increase represents 1 ¢/kWh over five years. All of the sums generated will be deposited in the Generations Fund.

In addition, the government is announcing in this budget that as of 2014-2015 it will make additional deposits in the Generations Fund stemming from the increase in mining, oil and gas royalties.

CHART D.3

Debt representing accumulated deficits

(as at March 31, as a percentage of GDP)

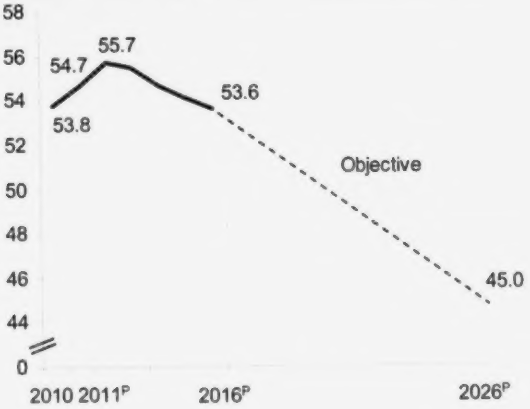


P: Preliminary results for 2011, forecasts for 2012 to 2016 and projections for subsequent years.

CHART D.4

Gross debt[1]

(as at March 31, as a percentage of GDP)



P: Preliminary results for 2011, forecasts for 2012 to 2016 and projections for subsequent years.

Note: The gross debt takes into account the sums accumulated in the Generations Fund.

[1] The gross debt excludes pre-financing.

1.3 Public sector debt

Public sector debt includes the government's gross debt as well as the debt of Hydro-Québec, municipalities, universities other than the Université du Québec and its constituent universities and other government enterprises. This debt has served notably to finance public infrastructures, such as roads, schools, hospitals, hydroelectric dams and water treatment plants.

Preliminary results show that, as at March 31, 2011, Québec's public sector debt should stand at $234 710 million, or 74.0% of GDP. These figures must be put into perspective for they do not take into account the economic value of certain assets held by the government, such as Hydro-Québec, the Société des alcools du Québec and Loto-Québec.

TABLE D.7

Public sector debt as at March 31
(millions of dollars)

	2009	2010	2011P
Government's gross debt[1]	157 630	163 318	173 429
Hydro-Québec	36 668	36 385	37 671
Municipalities[2]	18 639	19 538	20 636
Universities other than the Université du Québec and its constituent universities[3]	1 964	1 749	1 511
Other government enterprises[4]	434	697	1 463
PUBLIC SECTOR DEBT	**215 335**	**221 687**	**234 710**
As a % of GDP	***71.1***	***73.0***	***74.0***

P: Preliminary results.

[1] The gross debt excludes pre-financing.

[2] These amounts correspond to the long-term debt contracted by municipalities in their own name. Part of this debt is subsidized by the government ($3 084 million as at March 31, 2011).

[3] These amounts correspond to the debt contracted in their own name. Part of this debt is subsidized by the government ($336 million as at March 31, 2011).

[4] These amounts correspond to the debt contracted by the Financing Fund to finance government enterprises and entities not included in the reporting entity. The amounts exclude the debt of organizations contracted in their own name that is guaranteed by a third party or secured by assets such as inventories and accounts receivable.

1.4 Comparison of the debt of Canadian provinces

It is worthwhile comparing the concepts of debt used by the Québec government with those used by other governments in Canada.

An analysis of the budget documents of the federal and provincial governments shows that the concepts of debt used to assess financial position vary widely from province to province.

The preferred concept of debt in British Columbia and Saskatchewan is direct debt. Ontario, Alberta, New Brunswick, Newfoundland and Labrador, Manitoba and Nova Scotia use the concept of net debt.

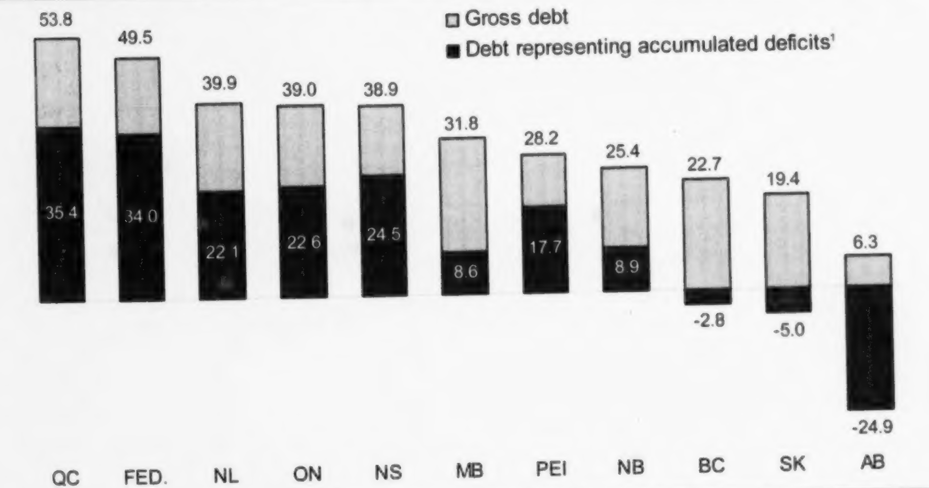
Four governments use the concept of debt representing accumulated deficits as a measure of indebtedness in their budget documents. They are the government of Québec, the federal government and the governments of Ontario and Alberta.

As for Prince Edward Island, its recent budget documents make no mention of its debt concept.

Be it on the basis of the gross debt or the debt representing accumulated deficits, Québec is the most heavily indebted province.

CHART D.5

Gross debt and debt representing accumulated deficits as at March 31, 2010
(as a percentage of GDP)



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[1] A negative entry means that the government has an accumulated surplus.

Sources: Ministère des Finances du Québec, governments' public accounts and Statistics Canada.

The following table shows the debt of the federal government and each of the provinces as at March 31, 2010. The figures in boxes refer to the concept of debt used by the government concerned in its budget documents to measure its level of debt. Some governments use more than one concept.

TABLE D.8

Debt as at March 31, 2010 according to various concepts

(millions of dollars)

	QC	**FED**	**ON**	**BC**	**AB**	**NB**	**NL**	**MB**	**SK**	**NS**	**PEI**
Consolidated direct debt	**136 074**	**559 126**	**221 306**	$\boxed{41\ 392}$	**6 204**	**7 043**	**6 012**	**14 070**	$\boxed{5\ 089}$	**11 372**	**1 294**
Net retirement plans liability	29 789	142 843	– 5 266	53	9 481	– 197	2 177	1 800	5 872	558	23
Net employee future benefits liability	132	54 227	9 582	1 844		134	1 768	362		1 409	23
Generations Fund	– 2 677										
Gross debt[1]	$\boxed{163\ 318}$	**756 196**	**225 622**	**43 289**	**15 685**	**6 980**	**9 957**	**16 232**	**10 961**	**13 339**	**1 340**
As a % of GDP	*53.8*	*49.5*	*39.0*	*22.7*	*6.3*	*25.4*	*39.9*	*31.8*	*19.4*	*38.9*	*28.2*
Less:											
Net financial assets[2]	– 13 218	– 173 724	– 32 033	– 15 252	– 43 002	1 373	– 1 737	– 4 438	– 7 401	– 320	241
Net debt[3]	**150 100**	**582 472**	$\boxed{193\ 589}$	**28 037**	$\boxed{-27\ 317}$	$\boxed{8\ 353}$	$\boxed{8\ 220}$	$\boxed{11\ 794}$	**3 560**	$\boxed{13\ 019}$	**1 581**
As a % of GDP	*49.4*	*38.1*	*33.5*	*14.7*	*– 11.1*	*30.0*	*32.9*	*23.1*	*6.3*	*38.0*	*33.3*
Less:											
Non-financial assets	– 42 483	– 63 375	– 62 632	– 33 309	– 34 217	– 5 911	– 2 705	– 7 426	– 6 396	– 4 616	– 739
Debt representing accumulated deficits[3]	$\boxed{107\ 617}$	$\boxed{519\ 097}$	$\boxed{130\ 957}$	**– 5 272**	$\boxed{-61\ 534}$	**2 442**	**5 515**	**4 368**	**– 2 836**	**8 403**	**842**
As a % of GDP	*35.4*	*34.0*	*22.6*	*– 2.8*	*– 24.9*	*8.9*	*22.1*	*8.6*	*– 5.0*	*24.5*	*17.7*

Note: The figures in boxes refer to the debt concept(s) used in the governments' budget documents.

[1] Gross debt is not shown in most government public accounts. However, the public accounts do show the components of gross debt, i.e. the consolidated direct debt, the net retirement plans liability and the net employee future benefits liability. It is therefore possible to deduce the amount of the gross debt.

[2] Financial assets, net of other liabilities.

[3] A negative entry indicates that the government has net assets or an accumulated surplus.

Sources: Ministère des Finances du Québec, governments' public accounts and Statistics Canada.

1.5 Retirement plans

The Québec government participates financially in the retirement plans of its employees. As at December 31, 2009, these plans had 555 783 active participants and 287 636 beneficiaries.

TABLE D.9

Retirement plans of public and parapublic sector employees as at December 31, 2009

	Active participants	**Beneficiaries**
Government and Public Employees Retirement Plan (RREGOP)	510 000	185 854
Pension Plan of Management Personnel (PPMP)	28 000	21 846
Other plans:		
- Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)[1]	240	47 604
- Civil Service Superannuation Plan (CSSP)[1]	100	22 724
- Pension Plan for the Members of the Sûreté du Québec (PPMSQ)	5 375	4 651
- Pension Plan of Peace Officers in Correctional Services (PPPOCS)	3 250	1 504
- Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	270	329
- Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)[2]	225	117
- Pension Plan of the Members of the National Assembly (PPMNA)	123	332
- Pension plan of the Université du Québec (PPUQ)	8 200	2 675
Total for other plans	17 783	79 936
TOTAL	**555 783**	**287 636**

[1] These plans have not accepted any new participants since July 1, 1973.

[2] This plan has not accepted any new participants since it came into effect on January 1, 1992.

Sources: Commission administrative des régimes de retraite et d'assurances and 2009-2010 Public Accounts.

These plans are defined benefit retirement plans, which means that they guarantee participants a certain level of income upon retirement. Benefits are calculated on the basis of participants' average income for the best paid years (generally five) and their number of years of service. The pension usually represents 2% of an employee's average income per year of service, for a maximum of 70%[2]. Benefits are partially indexed to inflation.

The Commission administrative des régimes de retraite et d'assurances (CARRA) is responsible for administering the retirement plans, except the pension plan of the Université du Québec (PPUQ). In 2010-2011, the government should pay $3 925 million to cover its share of the benefits paid to its retired employees.

☐ Retirement plans liability

In its financial statements, the government discloses the present value of the retirement benefits it will pay to its employees, taking into account the conditions governing their plans, as well as their years of service. This value is called the retirement plans liability.

CARRA performs actuarial valuations of the liability for each retirement plan (except the PPUQ, whose liability valuation is performed by a private-sector actuarial firm) in conformity with the rules set for the public sector by the Canadian Institute of Actuaries (CIA) and the Canadian Institute of Chartered Accountants (CICA).

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[2] As of January 1, 2011, the maximum number of years of service for RREGOP and the PPMP will be gradually increased to 38 as at January 1, 2014. This change is designed to allow experienced workers to remain on the labour market longer and thus improve their retirement income. Accordingly, if people so wish, they will eventually be able to accumulate up to 38 years of service for the purposes of calculating their pension benefits.

As at March 31, 2011, the government's retirement plans liability should stand at $71 371 million, an amount that is recognized in the government's gross debt.

TABLE D.10

Retirement plans liability

(millions of dollars)

	March 31, 2011P
Government and Public Employees Retirement Plan (RREGOP)	40 934
Pension Plan of Management Personnel (PPMP)	9 331
Other plans:	
- Teachers Pension Plan (TPP) and Pension Plan of Certain Teachers (PPCT)	12 249
- Civil Service Superannuation Plan (CSSP)	4 160
- Pension Plan for the Members of the Sûreté du Québec (PPMSQ)	3 515
- Pension plan of the Université du Québec (PPUQ)	2 226
- Pension Plan of Peace Officers in Correctional Services (PPPOCS)	820
- Pension Plan of the Judges of the Court of Québec and of Certain Municipal Courts (PPJCQM)	507
- Pension credits under supplemental pension plans	391
- Supplemental pension plan arising from the transfer of the pension plan for non-teaching personnel of the Commission des écoles catholiques de Montréal (SPP of the CECM) to RREGOP	268
- Pension Plan of the Members of the National Assembly (PPMNA)	178
- Pension Plan for Federal Employees Transferred to Employment with the Gouvernement du Québec (PPFEQ)	114
- Supplemental pension plan arising from the transfer of the pension plan for certain employees of the Commission scolaire de la Capitale (SPP of the CSC) to RREGOP	44
- Plans assets	– 3 366
Total for other plans	21 106
RETIREMENT PLANS LIABILITY	**71 371**

P: Preliminary results.

☐ Annual retirement plans expenditure

Every year, the government records its expenditure as an employer with regard to the retirement plans.

In 2010-2011, this expenditure should total $2 546 million. It comprises two components:

- the net cost of vested benefits, that is, the present value of retirement benefits that employees have accumulated for work performed during the year, i.e. $1 806 million;
- the amortization of revisions to the government's actuarial obligations that arise from the updating of actuarial valuations, for a cost of $740 million.

TABLE D.11

Retirement plans expenditure
(millions of dollars)

	2010-2011P
Net cost of vested benefits	1 806
Amortization of revisions arising from actuarial valuations	740
RETIREMENT PLANS EXPENDITURE	**2 546**

P: Preliminary results.

1.6 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund (RPSF) was created in 1993. It is an asset that was established to pay the retirement benefits of public and parapublic sector employees.

As at March 31, 2011, the book value of the RPSF should amount to $42 278 million.

TABLE D.12

Change in the Retirement Plans Sinking Fund (RPSF)
(millions of dollars)

	Book value, beginning of year	Deposits	Investment income imputed	Book value, end of year
1993-1994	—	850	4	854
1994-1995	854	—	- 5	849
1995-1996	849	—	74	923
1996-1997	923	—	91	1 014
1997-1998	1 095[1]	—	84	1 179
1998-1999	1 179	944	86	2 209
1999-2000	2 209	2 612	219	5 040
2000-2001	5 040	1 607	412	7 059
2001-2002	7 059	2 535	605	10 199
2002-2003	10 199	900	741	11 840
2003-2004	11 840	1 502	862	14 204
2004-2005	14 204	3 202	927	18 333
2005-2006	18 333	3 000	1 230	22 563
2006-2007	22 437[1]	3 000	1 440	26 877
2007-2008	26 877	3 000	1 887	31 764
2008-2009	31 749[2]	2 100	2 176	36 025
2009-2010	36 025	—	2 175	38 200
2010-2011[P]	38 200	2 000	2 078	42 278

P: Preliminary results.

[1] This amount takes into account restatements arising from the government accounting reforms of 1997-1998 and 2006-2007.

[2] This amount takes into account an adjustment arising from consideration of the expected average remaining service life (EARSL) of participants under the PPMP.

The information on the RPSF shown in the preceding table was established on the basis of the government's accounting policies, which are in full compliance with generally accepted accounting principles (GAAP) for Canada's public sector.

The book value of the RPSF as at March 31, 2011 is higher than its market value. As a result of the accounting policies, the difference between these two items will be fully amortized in the coming years. In addition, the financial impact of gradually amortizing the difference is fully incorporated into the government's financial framework over the entire planning horizon. Sub-section 1.10 describes these items in greater detail.

The government's accounting policies apply when the RPSF's book value is higher than its market value as well as when it is lower. As shown by the following table, the book value of the RPSF has been lower than its market value 8 times in the past 17 years.

TABLE D.13

Book value and market value of the Retirement Plans Sinking Fund as at March 31

(millions of dollars)

	Book value	**Market value**	**Difference**
1994-1995	849	831	18
1995-1996	923	954	– 31
1996-1997	1 014	1 095	– 81
1997-1998	1 179	1 321	– 142
1998-1999	2 209	2 356	– 147
1999-2000	5 040	5 703	– 663
2000-2001	7 059	7 052	7
2001-2002	10 199	9 522	677
2002-2003	11 840	9 240	2 600
2003-2004	14 204	12 886	1 318
2004-2005	18 333	17 362	971
2005-2006	22 563	23 042	– 479
2006-2007	26 877	28 859	– 1 982
2007-2008	31 764	32 024	– 260
2008-2009	36 025	25 535	10 490
2009-2010	38 200	29 559	8 641
2010-2011[P]	42 278	35 248[1]	7 030

P: Preliminary results.

[1] Market value of $34 201 million as at December 31, 2010, plus $500 million deposited in the RPSF from January 1 to March 31, 2011 and the return forecast from January 1 to March 31, 2011, corresponding to the anticipated annual return of 6.50% for that period.

☐ Amounts deposited in the RPSF have no impact on gross debt

The government issues bonds on financial markets in order to make deposits in the RPSF. However, the amounts deposited in the RPSF do not affect the government's gross debt.

Indeed, the amount of borrowings contracted to make deposits in the RPSF increases the direct debt. At the same time, however, these deposits reduce the net retirement plans liability by the same amount. Therefore, the net impact on the gross debt is nil.

TABLE D.14

Illustration of the impact on the government's gross debt of borrowing $1 billion on financial markets and depositing it in the RPSF[1]
(millions of dollars)

		Before deposit	After deposit	Change
(A)	Consolidated direct debt	147 666	148 666	1 000
	Retirement plans liability	71 371	71 371	—
	Less: Book value of the RPSF	– 42 278	– 43 278	– 1 000
(B)	Net retirement plans liability	29 093	28 093	– 1 000
(C)	Net employee future benefits liability	79	79	—
(D)	Less: Generations Fund	– 3 409	– 3 409	—
(E)	**GROSS DEBT (E = A + B + C + D)**	**173 429**	**173 429**	—

[1] Illustration based on preliminary results as at March 31, 2011.

☐ A decline in debt service

Deposits in the RPSF entail a reduction in the government's debt service. The rates of return on funds managed by the Caisse de dépôt et placement du Québec (the Caisse) are generally higher than interest rates on Québec government bonds issued to finance deposits in the RPSF. Therefore, the income of the RPSF, which is applied against the government's debt service, is usually higher than the additional interest charges that arise from new borrowings. This leads to a net decrease in the government's debt service.

Since the RPSF was created, its return has been higher than the cost of new borrowings by the government 13 years out of 17.

TABLE D.15

Comparison of the RPSF's annual return and the Québec government's borrowing costs

(per cent)

	Return of the RPSF[1]	Cost of new borrowings[2]	Difference
1994-1995	– 3.3[3]	5.9	– 9.2
1995-1996	17.0	5.3	11.7
1996-1997	16.1	6.3	9.8
1997-1998	13.4	5.7	7.7
1998-1999	10.4	5.8	4.6
1999-2000	15.3	7.2	8.1
2000-2001	7.2	6.2	1.0
2001-2002	– 4.7	5.5	– 10.2
2002-2003	– 8.5	4.7	– 13.2
2003-2004	14.9	4.6	10.3
2004-2005	11.4	4.4	7.0
2005-2006	13.5	4.4	9.1
2006-2007	13.5	4.4	9.1
2007-2008	5.2	4.8	0.4
2008-2009	– 25.6	4.2	– 29.8
2009-2010	10.7	4.6	6.1
2010-2011P	13.4	4.4	9.0

P: Preliminary results.

[1] On a calendar year basis.

[2] On a fiscal year basis.

[3] From February to December 1994.

❑ A flexible deposit policy

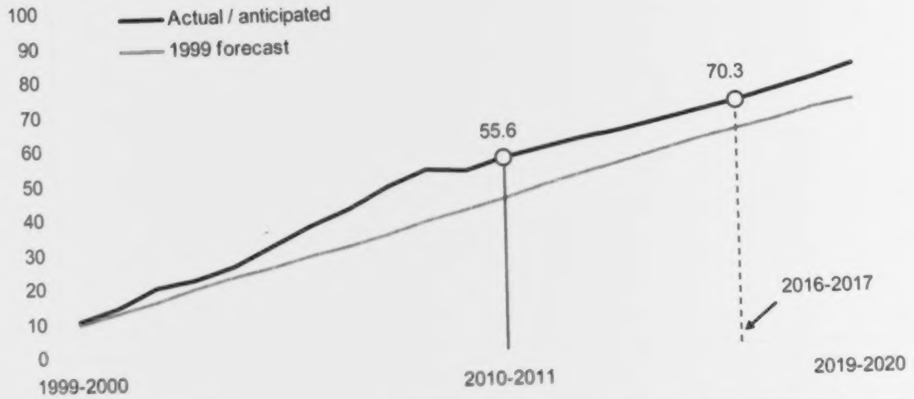
In December 1999, as part of an agreement concluded for the renewal of its employees' collective agreements, the government set the objective that the book value of the funds accumulated in the RPSF would be equal, in 2020, to 70% of its actuarial obligations in regard to the retirement plans of public and parapublic sector employees.

However, the government has all the flexibility needed to apply this policy. Deposits in the RPSF are made only when market conditions are favourable, particularly with respect to interest rates and market receptiveness to bond issues. For example, the government did not make any deposits in 2009-2010, but deposited $2 billion in 2010-2011.

The RPSF's book value is expected to represent roughly 56% of the government's actuarial obligations in regard to the retirement plans of public and parapublic sector employees in 2010-2011. The target of 70% should be attained three years earlier than anticipated, i.e. in 2016-2017. For example, it would take average annual deposits of roughly $225 million to reach this target in 2020.

CHART D.6

The RPSF in proportion to the government's actuarial obligations regarding the retirement plans of public and parapublic sector employees
(per cent)



1.7 Employee future benefits

In addition to the retirement plans, the government records under its debt the value of its commitments regarding future benefits programs for its employees, namely, accumulated sick leave and pensions paid to the survivors of a government employee. These programs give rise to long-term obligations whose costs are covered in full by the government.

The net liability for employee future benefits should amount to $79 million as at March 31, 2011.

TABLE D.16

Net employee future benefits liability as at March 31, 2011^P
(millions of dollars)

Accumulated sick leave	664
Survivor's pension plan	407
Université du Québec programs	164
Subtotal	**1 235**
Less: Accumulated Sick Leave Fund	– 700
Survivor's Pension Plan Fund	– 456
Subtotal	**– 1 156**
NET EMPLOYEE FUTURE BENEFITS LIABILITY	**79**

P: Preliminary results.

1.8 Generations Fund

The Generations Fund was created in June 2006 by the adoption of the *Act to reduce the debt and establish the Generations Fund*. The sums accumulated in the fund are dedicated exclusively to repaying the debt.

Section H presents the results of the Generations Fund in accordance with the requirements of the Act.

As at March 31, 2011, the book value of the Generations Fund is expected to stand at $3 409 million. The following table shows the book and market values of the Generations Fund since its creation.

TABLE D.17

Book value and market value of the Generations Fund as at March 31
(millions of dollars)

	Book value	Market value	Difference
2006-2007[1]	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011P	3 409	3 533[2]	– 124

P: Preliminary results.

[1] The first payment was made to the Generations Fund on January 31, 2007.

[2] Market value of $3 287 million as at December 31, 2010 plus the revenues dedicated to the Generations Fund from January 1 to March 31, 2011.

☐ Faster reduction of the debt

Financing for the Generations Fund comes from Québec government revenues dedicated exclusively to repaying the debt.

If the Generations Fund did not exist, these dedicated revenues would reduce the Québec government's financial requirements every year. They would also make it possible to reduce the growth of Québec's indebtedness. However, it would not be easy for Quebecers to see, over time, how the debt is being brought down thanks to the revenues dedicated to that end.

The Generations Fund makes it possible to follow the change in the funds the government sets aside to repay the debt. These funds, which are administered by the Caisse, are subtracted from the government's debt. The impact on the debt is thus clear and transparent.

In addition, the returns obtained by the Caisse are usually higher than the cost of new borrowings by the Québec government, which helps to accelerate debt burden reduction.

Ever since the first deposit was made in the Generations Fund in January 2007, the return has been higher than the cost of new borrowings by the government three years out of four. It should be noted that in the case of the RPSF, which has been in existence since 1993, this has occurred 13 years out of 17.

TABLE D.18

Comparison of the Generations Fund's annual return and the Québec government's borrowing costs
(per cent)

	Return of the Generations Fund[1]	Cost of new borrowings[2]	Difference
2007-2008	5.6[3]	4.8	0.8
2008-2009	– 22.4	4.2	– 26.6
2009-2010	11.3	4.6	6.7
2010-2011P	12.3	4.4	7.9

P: Preliminary results.

[1] On a calendar year basis.

[2] On a fiscal year basis.

[3] Return realized from February to December 2007, since the first deposit was made in the Generations Fund on January 31, 2007.

1.9 Returns of the Caisse de dépôt et placement du Québec on funds deposited by the Ministère des Finances

In 2010, the return on funds deposited by the Ministère des Finances with the Caisse de dépôt et placement du Québec (the Caisse) was 13.43% for the Retirement Plans Sinking Fund, 12.32% for the Generations Fund and 12.94% for the Accumulated Sick Leave Fund. The details of the investment policy of these funds are presented in the box on page D.33.

TABLE D.19

Market value and return in 2010 of funds deposited with the Caisse de dépôt et placement du Québec by the Ministère des Finances

	Return	Market value as at December 31, 2010
	%	$ million
Retirement Plans Sinking Fund	13.43	34 201
Generations Fund	12.32	3 287
Accumulated Sick Leave Fund	12.94	745

1.9.1 Retirement Plans Sinking Fund

The Retirement Plans Sinking Fund showed a return of 13.43% in 2010. Its market value was $34 201 million as at December 31, 2010.

The assets of the RPSF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances. This investment policy was established taking several factors into account, including the 10-year return, standard deviation and correlation forecasts for various categories of assets prepared by the Caisse, as well as opportunities for investing in these assets.

The investment policy of the RPSF consists of 37.25% fixed-income securities (bonds, real estate debt, etc.), 46.25% equities, 13.0% inflation-sensitive securities (real estate, infrastructure, etc.) and 3.5% other investments. These weightings are similar to those used on average by all depositors with the Caisse.

TABLE D.20

Investment policy of the RPSF as at January 1, 2011

(per cent)

	Benchmark portfolio of the RPSF	Average benchmark portfolio of all depositors[1]
Fixed-income securities	37.25	37.0
Equities	46.25	44.7
Inflation-sensitive securities	13.00	13.8
Other investments	3.50	4.5
TOTAL	**100.0**	**100.0**

1 Data for 2009. Calculations performed by the MFQ using the following source: Caisse de dépôt et placement du Québec, *Annual Report 2009*. The annual report for 2010 is not available yet.

With its investment policy, the RPSF should generate a long-term (10-year or longer) annual return of about 6.75%. This return is slightly lower to that forecast by most retirement plans in Canada. According to a recent survey by Morneau Sobeco[3], the anticipated long-term return on assets of two retirement plans out of three in Canada is equal to or above 7.0%.

It is important to note that the RPSF's investment policy is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the RPSF's assets, particularly to take fluctuations in the economic and financial situation into account. The RPSF's benchmark portfolio would have generated a return of 9.19% in 2010.

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[3] Morneau Sobeco (2010), *2010 Survey of Economic Assumptions in Accounting for Pensions and Other Post-Retirement Benefits.*

1.9.2 Generations Fund

The Generations Fund posted a return of 12.32% in 2010. Its market value was $3 287 million as at December 31, 2010.

The assets of the Generations Fund are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances. This investment policy was established taking several factors into account, including the 10-year return, standard deviation and correlation forecasts for various categories of assets prepared by the Caisse, as well as opportunities for investing in these assets.

The investment policy of the Generations Fund consists of 43.5% fixed-income securities (bonds, real estate debt, etc.), 42.5% equities, 11.0% inflation-sensitive securities (real estate, infrastructure, etc.) and 3.0% other investments.

TABLE D.21

Investment policy of the Generations Fund as at January 1, 2011
(per cent)

	Benchmark portfolio of the Generations Fund	Average benchmark portfolio of all depositors[1]
Fixed-income securities	43.5	37.0
Equities	42.5	44.7
Inflation-sensitive securities	11.0	13.8
Other investments	3.0	4.5
TOTAL	**100.0**	**100.0**

[1] Data for 2009. Calculations performed by the MFQ using the following source: Caisse de dépôt et placement du Québec, *Annual Report 2009*. The annual report for 2010 is not available yet.

The investment policy of the Generations Fund aims to achieve a long-term (10-year or longer) annual return of about 6.5%. It is important to note that the investment policy of the Generations Fund is based on a long-term horizon and constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the Generations Fund's assets, particularly to take fluctuations in the economic and financial situation into account. The benchmark portfolio of the Generations Fund would have generated a return of 9.20% in 2010.

1.9.3 Accumulated Sick Leave Fund

The Accumulated Sick Leave Fund (ASLF) showed a return of 12.94% in 2010. Its market value was $745 million as at December 31, 2010.

The assets of the ASLF are managed by the Caisse in accordance with an investment policy established by the Ministère des Finances. Since January 1, 2009, the ASLF's investment policy has been identical to that of the RPSF, as the creation of the ASLF stems from a long-term commitment made by the government in regard to employee future benefits, which is similar to the commitment regarding the retirement plans.

It is important to note that the ASLF's investment policy constitutes the benchmark portfolio for the Caisse. However, through active management, the Caisse adjusts the allocation of the ASLF's assets, particularly to take fluctuations in the economic and financial situation into account. The ASLF's benchmark portfolio would have generated a return of 9.19% in 2010.

Comparison of investment policies

Investment policies as at January 1, 2011
(per cent)

Specialized portfolio	RPSF and ASLF	Generations Fund	Average benchmark portfolio of all depositors[1]
Short-term investments	1.0	1.0	1.1
Bonds	29.75	36.0	26.9
Long-term bonds	0.0	0.0	2.5
Real estate debt	6.5	6.5	6.5
Total – Fixed income	**37.25**	**43.5**	**37.0**
Canadian equity	13.75	10.0	12.2
Global equity	1.25	1.5	0.0
US equity	3.6	3.8	3.4
Foreign equity	8.2	6.5	5.5
Emerging markets equity	4.0	4.0	3.2
Québec International	5.45	8.7	10.6
Private equity	10.0	8.0	9.8
Total – Equity	**46.25**	**42.5**	**44.7**
Real return bonds	0.0	0.0	0.4
Infrastructures	4.0	3.5	3.3
Real estate	9.0	7.5	10.1
Total – Inflation-sensitive investments	**13.0**	**11.0**	**13.8**
Hedge funds	3.5	3.0	3.0
Commodities	0.0	0.0	1.5
Total – Other investments	**3.5**	**3.0**	**4.5**
TOTAL	**100.0**	**100.0**	**100.0**

RPSF: Retirement Plans Sinking Fund.
ASLF: Accumulated Sick Leave Fund.

[1] Data for 2009. Calculations performed by the MFQ using the following source: Caisse de dépôt et placement du Québec, *Annual Report 2009*. The annual report for 2010 is not available yet.

1.10 Impact of the returns of the Retirement Plans Sinking Fund on debt service

As indicated in sub-section 1.6, the income of the RPSF is applied against the government's debt service. The returns of the Caisse affect RPSF income and therefore debt service.

The returns realized by the Caisse on the RPSF are taken into account in the government's balance sheet and results by applying the accounting policy adopted in the wake of the December 2007 reform of government accounting in accordance with generally accepted accounting principles (GAAP).

> "When determining a government's retirement benefit liability and expense, plan assets would be valued at market-related values. Under this method, plan assets are recorded at market value or they are adjusted to market value over a period not to exceed five years. Values adjusted to market closely approximate current economic value in a manner that can minimize short-term fluctuations. Market-related values would be used because they are objective and verifiable. Once a basis of valuation is chosen it would be applied consistently." (Canadian Institute of Chartered Accountants (CICA), *Public Sector Accounting Handbook*, section 3250, paragraph .035)

Under the accounting policy, the "adjusted market value" of the RPSF is adjusted every year based on the returns realized by the fund. If, for a given year, the realized return differs from the anticipated long-term return, the difference between the two is spread over five years. All other things being equal, this means that the adjusted market value and the market value will converge over a five-year period. It is important to note that this method is applied when returns are higher than expected as well as when they are lower[4].

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[4] Before the accounting reform of 2007, the value of the RPSF was adjusted only once every three years, that is, when actuarial valuations were carried out. Since the reform, it has been adjusted every year.

In addition, the differences between actual and expected return, which are spread over five years, are taken into account in RPSF income by amortizing them over a period of about 13 years, that is, the expected average remaining service life (EARSL) of retirement plan participants[5]. This amortization mechanism and the period used are prescribed by GAAP[6].

Therefore, the losses incurred by the Caisse in 2008-2009 reduced the income of the RPSF as of 2009-2010. The returns realized by the Caisse in 2009-2010, which were higher than anticipated, led to an increase in the RPSF's income as of 2010-2011. Similarly, the returns realized by the Caisse in 2010-2011, which were also higher than expected, will raise the RPSF's income as of 2011-2012.

TABLE D.22

Impact of the returns of the Caisse de dépôt et placement du Québec on debt service[1]

(millions of dollars)

	2009-2010	2010-2011P	2011-2012P	2012-2013P
Before 2008-2009	– 48	– 78	– 57	11
From 2008-2009	307	629	972	1 337
From 2009-2010		– 65	– 133	– 207
From 2010-2011			– 48	– 99
Impact on debt service	**259**	**486**	**734**	**1 042**

P: Preliminary results for 2010-2011 and forecasts for subsequent years.

Note: A positive entry indicates an increase in debt service and a negative entry, a decrease.

1 These amounts represent the impact on RPSF income, and therefore on debt service, of returns of the Caisse that are lower or higher than the anticipated return for that period and that are amortized.

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[5] As with recognition of the retirement plans liability, the RPSF accounting method draws a distinction between the Pension Plan of Management Personnel (PPMP) and the other plans. The EARSL under the PPMP is 9 years compared with 14 years under the other plans.

[6] "...actuarial gains and losses should be amortized to the liability or asset and the related expense in a systematic and rational manner over the expected average remaining service life of the related employee group." Canadian Institute of Chartered Accountants (CICA), *Public Sector Accounting Handbook*, section 3250, paragraph .062. For the purposes of retirement assets, the CICA defines actuarial gains (losses) as changes in the value of plan assets that are caused notably by variances between actual results and expected results.

2. FINANCING

In 2010-2011, the government contracted borrowings totalling $18 886 million, including $2 960 million in pre-financing carried out in the last few months of the year.

2.1 Financing strategy

The government aims to borrow at the lowest possible cost. To that end, it applies a strategy for diversifying sources of funding by market, financial instrument and maturity.

2.1.1 Diversification by market

Financing transactions are conducted regularly on most markets, i.e. in Canada, the United States, Europe and Asia.

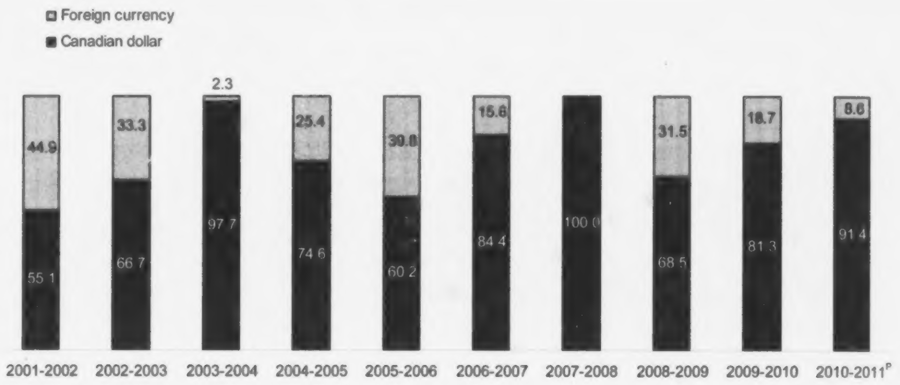
Over the past 10 years, 22% of borrowings have been contracted in foreign currency. Nonetheless, the government has only a very low exposure to foreign currencies (see sub-section 3.1).

In 2010-2011, the government contracted 8.6% of its borrowings on foreign markets:

- one borrowing for 35 million euros (CAN$47 million) in April 2010;
- one borrowing for US$1 500 million (CAN$1 549 million) in July 2010.

CHART D.7

Borrowings by currency[1]
(per cent)



P: Preliminary results.

[1] Borrowings of the consolidated revenue fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

2.1.2 Diversification by instrument

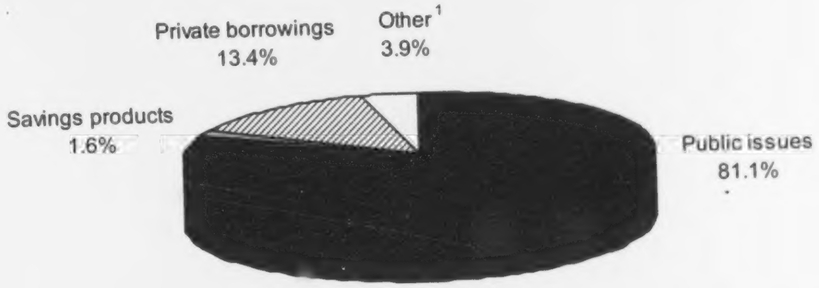
To satisfy investors' needs, an extensive array of financial products is used in the course of financing transactions.

Long-term instruments consist primarily of public bond issues, private borrowings and savings products.

The long-term instruments used in 2010-2011 consisted mainly of public issues (81.1%) and private borrowings (13.4%).

CHART D.8

Borrowings in 2010-2011^P by instrument



P: Preliminary results.

[1] Includes the Business Assistance – Immigrant Investor Program and borrowings from the Canada Pension Plan Investment Fund.

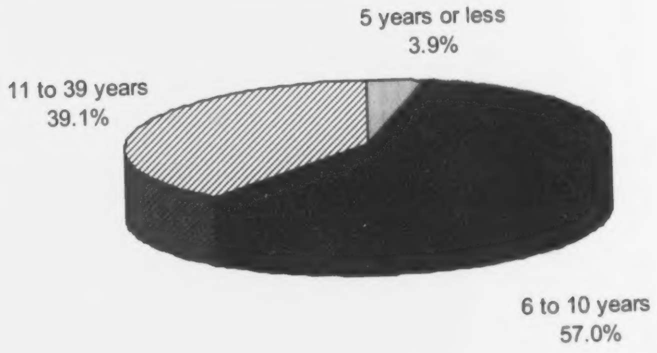
2.1.3 Diversification by maturity

Maturities of new borrowings are distributed over time to obtain a stable refinancing profile and ensure the government's regular presence on capital markets.

In 2010-2011, 57.0% of borrowings contracted had a maturity of 6 to 10 years; 39.1%, 11 to 39 years; and 3.9%, 5 years or less.

CHART D.9

Borrowings in 2010-2011^P by maturity

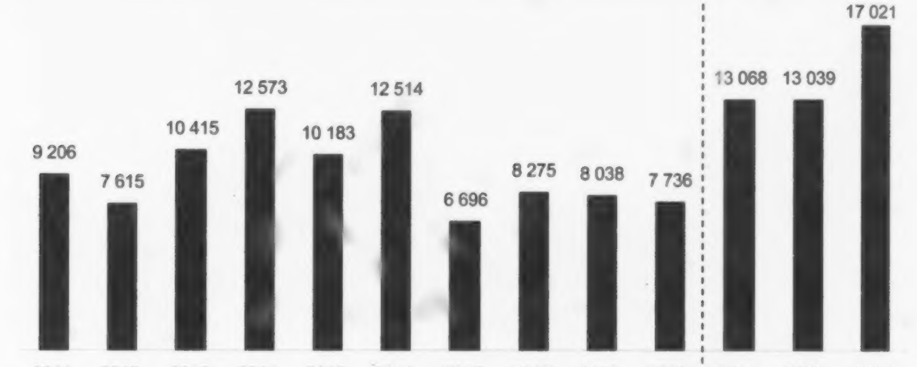


P: Preliminary results.

This diversification by maturity has an impact on the maturity of the debt shown in the following chart. As at March 31, 2011, the average maturity of the debt should be 11 years.

CHART D.10

Maturity of the long-term debt as at March 31, 2011^P
(millions of dollars)



P: Preliminary results.
Note: Direct debt of the consolidated revenue fund, debt contracted to make advances to the Financing Fund and debt of Financement-Québec.

2.2 Financing program

The financing program of the consolidated revenue fund makes it possible to refinance maturing borrowings, contribute to the Retirement Plans Sinking Fund and meet new financial requirements, particularly for capital investments and investments in government corporations.

The Financing Fund makes loans to consolidated entities (e.g. Fonds des réseaux de transport terrestre, Société immobilière du Québec, etc.) and to certain government enterprises.

Financement-Québec makes borrowings on financial markets to meet the needs of institutions in the health and social services and education networks.

In 2010-2011, Financement-Québec also contracted borrowings with the Canada Mortgage and Housing Corporation (CMHC) under the municipal infrastructure low-cost loans program.

- Under this program, announced in the January 2009 federal budget, the CMHC is responsible for making low-cost loans to municipalities totalling up to $2 billion for Canada as a whole.
- Following an agreement with the federal government, Financement-Québec administers this program with respect to loans to Québec municipalities: Financement-Québec contracts borrowings with the CMHC and then lends the funds to municipalities on the same conditions as those set by the CMHC.
- In fiscal 2010-2011, Québec municipalities will have borrowed $1 172 million under this program.
- These borrowings have been recorded under the government's debt rather than under that of municipalities. However, they have the same impact on Québec's public sector debt.

In 2010-2011, the government contracted borrowings totalling $18 886 million, including $2 960 million in pre-financing conducted over the last few months of the year.

In 2011-2012, the financing program is expected to amount to $17 355 million. It would have amounted to $20 315 million had there not been any pre-financing in 2010-2011. In 2012-2013, the financing program should total $15 036 million.

TABLE D.23

The government's financing program

(millions of dollars)

	2010-2011P	2011-2012P	2012-2013P
CONSOLIDATED REVENUE FUND			
Net financial requirements[1, 2]	3 613	5 587	2 524
Repayment of borrowings	4 324	6 728	4 512
Change in cash position	– 4 283	– 2 960	—
Retirement Plans Sinking Fund, other retirement plan assets and funds dedicated to employee future benefits - Deposits	2 000	—	—
Transactions under the credit policy[3]	479	—	—
Pre-financing	2 960	—	—
TOTAL — Consolidated revenue fund	**9 093**	**9 355**	**7 036**
FINANCING FUND	**5 466**	**4 500**	**4 500**
Including: repayment of borrowings	1 769	542	1 264
FINANCEMENT-QUÉBEC	**4 327**[4]	**3 500**	**3 500**
Including: repayment of borrowings	400	1 936	1 839
TOTAL	**18 886**	**17 355**	**15 036**
Including: repayment of borrowings	6 493	9 206	7 615

P: Preliminary results for 2010-2011 and forecasts for subsequent years.

Note: A negative entry indicates a source of financing and a positive entry, a financial requirement.

[1] These amounts exclude the net financial requirements of consolidated entities.

[2] Net financial requirements are adjusted to take into account the non-receipt of RPSF and ASLF income.

[3] Under its credit policy, which is designed to limit financial risk with respect to counterparties, the government disbursed $479 million in 2010-2011 following the change in foreign exchange rates. These disbursements do not affect the debt.

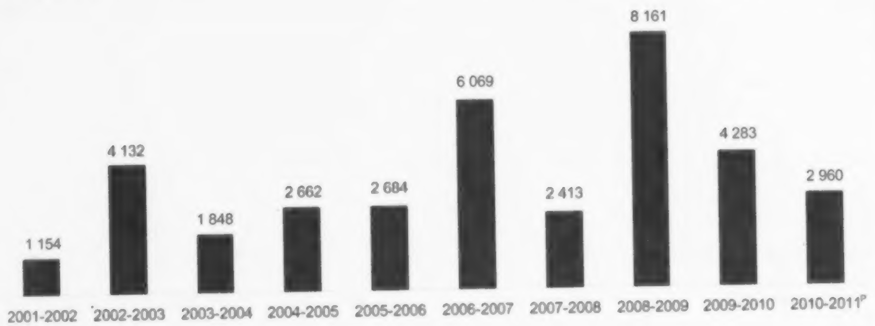
[4] This amount includes borrowings of $886 million contracted with the CMHC under the municipal infrastructure low-cost loans program and borrowings of $286 million to be made under this program by March 31, 2011.

Pre-financing

The government makes advance borrowings, or borrowings that would normally be made in the following fiscal year. The government obtains pre-financing to take advantage of favourable market conditions.

Over the past 10 years, the government has obtained an average of $3 637 million in pre-financing per year.

Pre-financing
(millions of dollars)



P: Preliminary results.

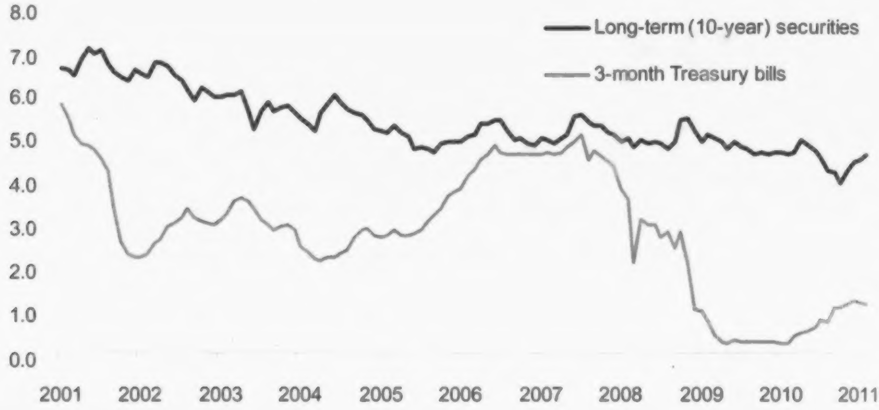
2.2.1 Yield

In 2010, the yield on long-term Québec securities fell during the year but rose during the last quarter. However, short-term interest rates increased constantly throughout the year.

CHART D.11

Yield on Québec securities

(per cent)



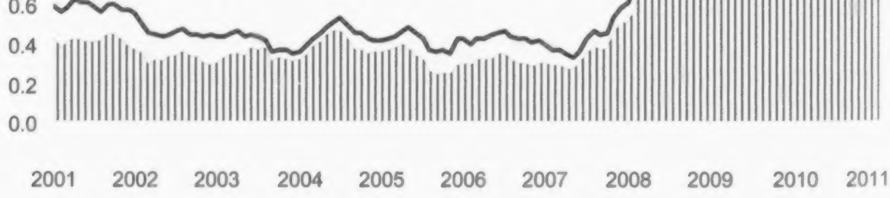
Sources: PC-Bond and Ministère des Finances du Québec.

In addition, the substantial increase in the spread between the yield on Québec and federal government securities, observed starting in summer 2008, has been considerably reduced. The same situation has been observed in the other provinces.

CHART D.12

Yield spread on long-term (10-year) securities

(per cent)



Source: PC-Bond.

3. DEBT MANAGEMENT

The government's debt management strategy aims to minimize the cost of the debt and limit the risk related to fluctuations in foreign exchange and interest rates.

The government uses a range of financial instruments, particularly interest rate and currency swap agreements, to achieve desired debt proportions by currency and interest rate.

Debt management enables the government to save money on debt service.

3.1 Structure of the debt by currency

As at March 31, 2011, the proportion of the government's gross debt in Canadian dollars should amount to 99.2% and the proportion in foreign currency, 0.8%.

TABLE D.24

Structure of the gross debt as at March 31, 2011^P
(millions of dollars)

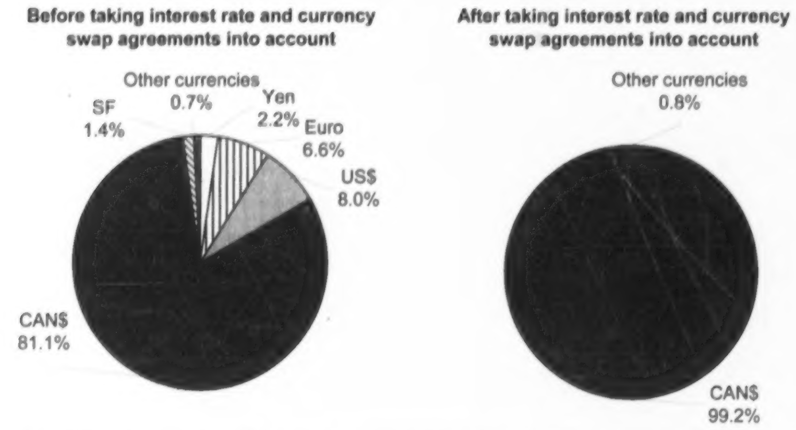
	Consolidated direct debt									
Currency	**Consolidated revenue fund**	**%**	**Consolidated entities**	**Total**		**Net retirement plans liability**	**Net employee future benefits liability**	**Less: Generations Fund**	**Gross debt**	**%**
Canadian dollar[1]	97 104	98.6	52 050	149 154	99.0	29 093	79	– 3 409	174 917	99.2
US dollar[1]	334	0.3	—	334	0.2	—	—	—	334	0.2
Euro	127	0.1	—	127	0.1	—	—	—	127	0.1
Swiss franc	632	0.6	—	632	0.4	—	—	—	632	0.3
Yen	379	0.4	—	379	0.3	—	—	—	379	0.2
Subtotal	**98 576**	**100.0**	**52 050**	**150 626**	**100.0**	**29 093**	**79**	**– 3 409**	**176 389**	**100.0**
Pre-financing	– 2 960		—	– 2 960		—	—	—	– 2 960	
TOTAL	**95 616**		**52 050**	**147 666**		**29 093**	**79**	**– 3 409**	**173 429**	

P: Preliminary results.
Note: The debt in foreign currency is expressed in the Canadian equivalent based on the exchange rates in effect on March 9, 2011.
1 The debt takes into account the borrowings sinking fund.

Before interest rate and currency swap agreements are taken into account, the proportion of the debt in foreign currency as at March 31, 2011 should be 18.9%. After interest rate and currency swap agreements are taken into account, the proportion should be 0.8%. This proportion was 3.3% as at March 31, 2010.

CHART D.13

Structure of the gross debt by currency as at March 31, 2011P



P: Preliminary results.

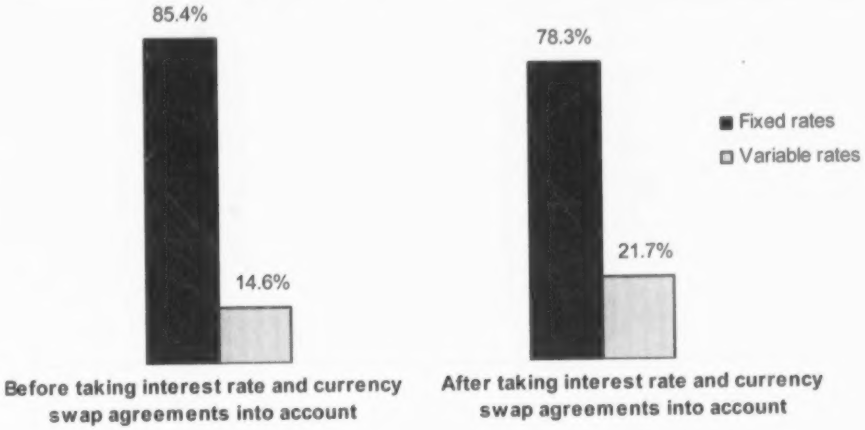
3.2 Structure of the debt by interest rate

The government keeps part of its debt at variable rates and part at fixed rates. Since short-term interest rates are generally lower than long-term rates, keeping part of the debt at variable rates makes it possible to achieve substantial savings on debt service.

Before interest rate and currency swap agreements are taken into account, the proportion of the gross debt at variable rates should be 14.6% as at March 31, 2011. After interest rate and currency swap agreements are taken into account, the proportion should be 21.7%. This proportion was 27.9% as at March 31, 2010.

CHART D.14

Structure of the gross debt by interest rate as at March 31, 2011P



P: Preliminary results.

4. CREDIT RATINGS

4.1 The Québec government's credit ratings

A borrower's credit rating measures its capacity to pay the interest on its debt and repay the principal at maturity. To establish the credit rating of a borrower like the Québec government, credit rating agencies analyze a range of economic, fiscal and financial factors. Among the main factors are the size, structure and vitality of the economy, the situation on the labour market, fiscal competitiveness, public finance situation and indebtedness.

To express the quality of a borrower's credit, credit rating agencies use rating scales, namely, a scale for long-term debt and a scale for short-term debt.

The following table shows the rating scales used by agencies for long-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.25

Credit rating scales for long-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch Ratings	Japan Credit Rating Agency
Extremely strong capacity to pay interest and repay principal.	Aaa	AAA	AAA	AAA	AAA
Very strong capacity to pay interest and repay principal.	Aa1	AA+	AA (high)	AA+	**AA+**
	Aa2	AA	AA	AA	AA
	Aa3	AA-	AA (low)	**AA-**	AA-
Strong capacity to pay interest and repay principal, despite greater sensitivity to economic conditions than levels AAA and AA.	A1	**A+**	**A (high)**	A+	A+
	A2	A	A	A	A
	A3	A-	A (low)	A-	A-
Adequate capacity to pay interest and repay principal. Difficult economic conditions may reduce this capacity.	Baa1	BBB+	BBB (high)	BBB+	BBB+
	Baa2	BBB	BBB	BBB	BBB
	Baa3	BBB-	BBB (low)	BBB-	BBB-
Uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	Ba1	BB+	BB (high)	BB+	BB+
	Ba2	BB	BB	BB	BB
	Ba3	BB-	BB (low)	BB-	BB-
Very uncertain capacity to pay interest and repay principal, particularly under difficult economic conditions.	B1	B+	B (high)	B+	B+
	B2	B	B	B	B
	B3	B-	B (low)	B-	B-

Agencies add an « outlook » to the rating that indicates the trend the credit rating may follow in the future. The outlook may be positive, stable or negative.

TABLE D.26

The Québec government's current credit ratings

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA–	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

The following table shows the rating scales used by agencies for short-term debt. The current credit ratings for Québec are indicated in bold.

TABLE D.27

Credit rating scales for short-term debt

Definition	Moody's	Standard & Poor's	DBRS	Fitch Ratings
Very strong capacity to pay interest and repay principal over the short term.	**P-1**	**A-1+** A-1	R-1^{high} **R-1^{middle}** R-1^{low}	**F1+** F1
Very adequate capacity to pay interest and repay principal over the short term, despite greater sensitivity to economic conditions than upper level.	P-2	A-2	R-2^{high}	F2
Adequate capacity to pay interest and repay principal over the short term. Difficult economic conditions may reduce this capacity.	P-3	A-3	R-2^{middle} R-2^{low} R-3	F3
Uncertain capacity to pay interest and repay principal over the short term. Securities in this category are considered speculative securities.	Not Prime[1]	B-1 B-2 B-3 C	R-4 R-5	B C
Incapacity to pay interest and repay principal over the short term. Securities in this category are considered default securities.	Not Prime[1]	D	D	D

[1] Moody's uses the "Not Prime" category for all securities not included in the upper categories.

❑ Change in Québec's credit ratings

The following charts show the change in the Québec government's credit ratings.

CHART D.15

Credit rating assigned to Québec by Moody's

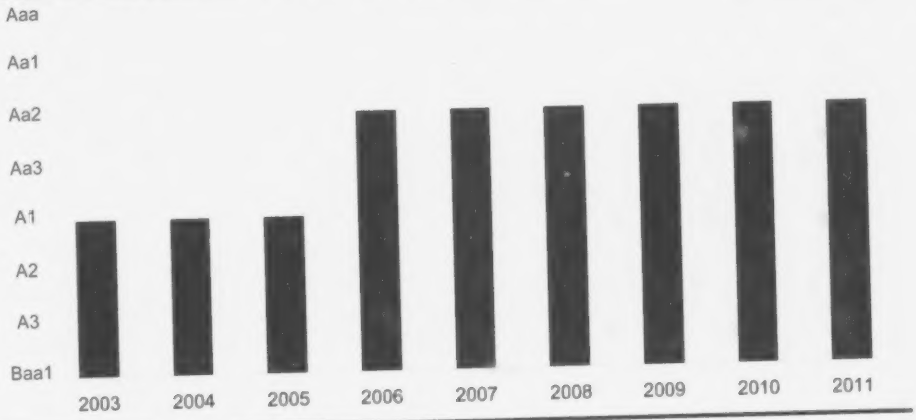


CHART D.16

Credit rating assigned to Québec by Standard & Poor's

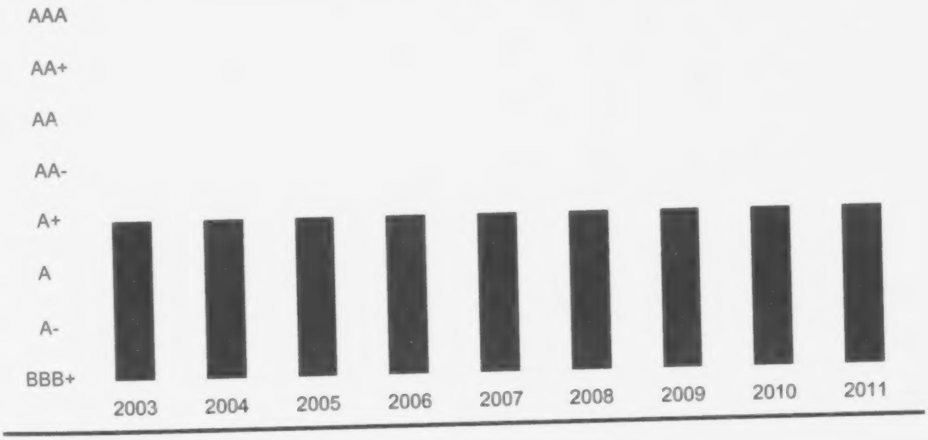


CHART D.17

Credit rating assigned to Québec by DBRS

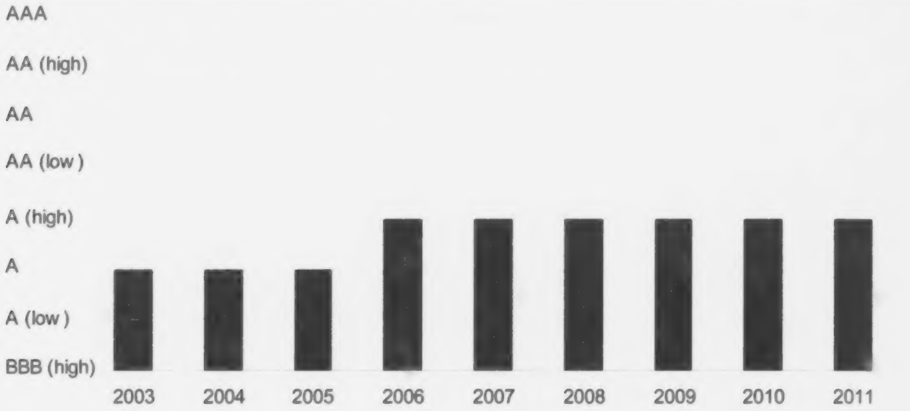


CHART D.18

Credit rating assigned to Québec by Fitch

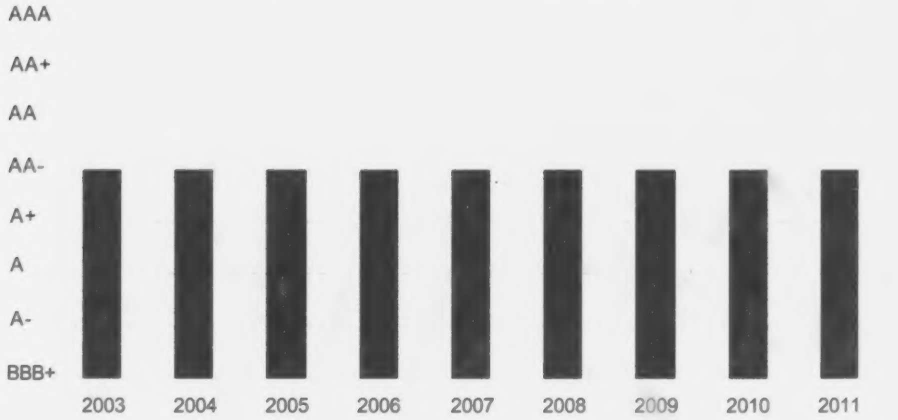
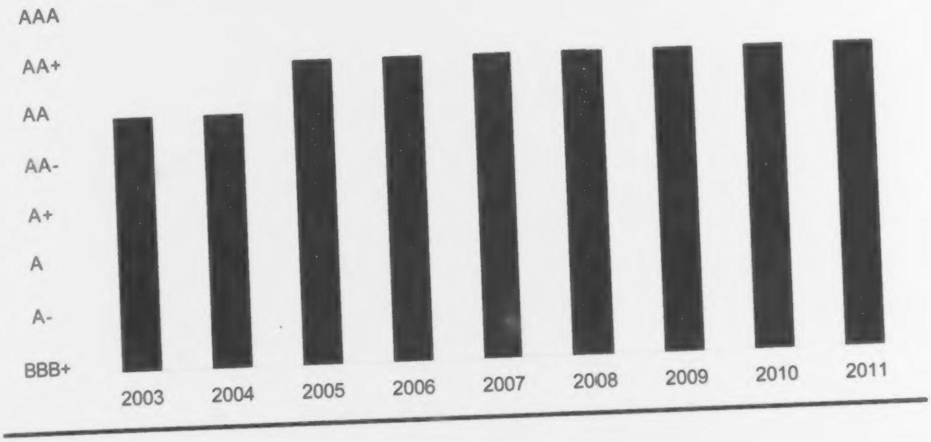


CHART D.19

Credit rating assigned to Québec by JCR



4.2 Comparison of the credit ratings of Canadian provinces

The following charts show the credit ratings of Canadian provinces in early March 2011. No chart is given for JCR since Québec is the only province that receives a credit rating from that agency.

CHART D.20

Credit rating of Canadian provinces — Moody's

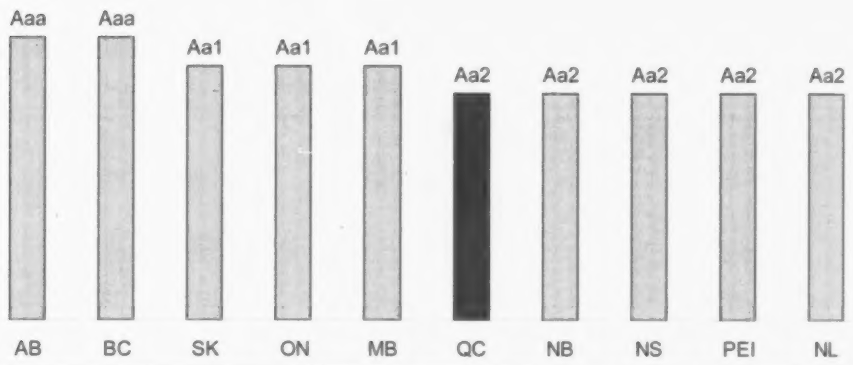
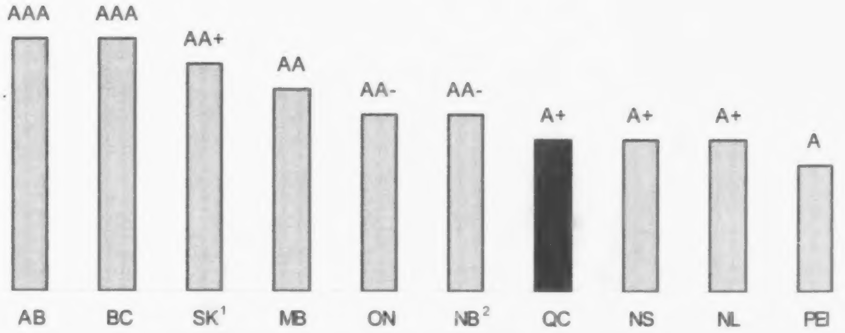


CHART D.21

Credit rating of Canadian provinces — Standard & Poor's



1 Positive outlook.
2 Negative outlook.

CHART D.22

Credit rating of Canadian provinces — DBRS

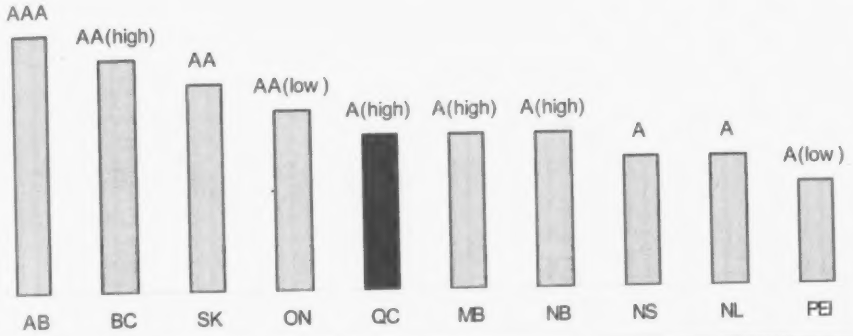
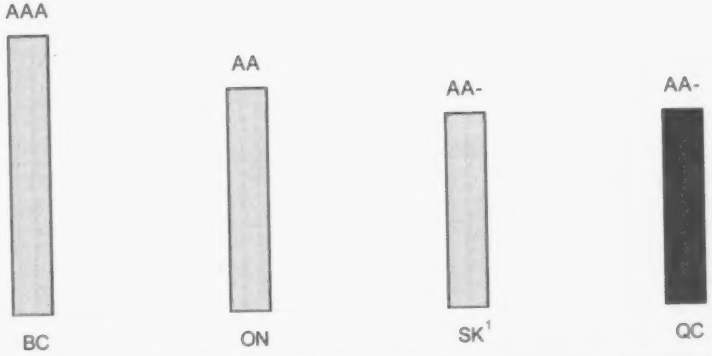


CHART D.23

Credit rating of Canadian provinces — Fitch



Note: British Columbia, Ontario, Saskatchewan and Québec are the only provinces rated by this agency.

1 Positive outlook.

5. ADDITIONAL INFORMATION

TABLE D.28

Summary of consolidated financing transactions

(millions of dollars)

	2010-2011^{P}				
	March 2010 Budget	Preliminary results	Change	2011-2012^{P}	2012-2013^{P}
CHANGE IN CASH POSITION					
Consolidated revenue fund	3 855	1 323	– 2 532	2 960	—
Consolidated entities	—	172	172	—	—
TOTAL – Change in cash position	**3 855**	**1 495**	**– 2 360**	**2 960**	**—**
NET BORROWINGS					
Consolidated revenue fund					
New borrowings	4 936	9 093	4 157	9 355	7 036
Repayment of borrowings	– 3 658	– 4 803[1]	– 1 145	– 6 728	– 4 512
	1 278	4 290	3 012	2 627	2 524
Consolidated entities					
New borrowings	8 152	9 633	1 481	7 867	8 179
Repayment of borrowings	– 3 281[2]	– 4 103[3]	– 822	– 2 893	– 3 281
	4 871	5 530	659	4 974	4 898
TOTAL – Net borrowings	**6 149**	**9 820**	**3 671**	**7 601**	**7 422**
Retirement Plans Sinking Fund, other retirement plan assets and funds dedicated to employee future benefits	**– 2 133**	**– 4 113**	**– 1 980**	**– 2 087**	**– 1 924**
Generations Fund	**– 892**	**– 732**	**160**	**– 940**	**– 1 047**
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**6 979**	**6 470**	**– 509**	**7 534**	**4 451**

P: Preliminary results for 2010-2011 and forecasts for subsequent years.

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

[1] This amount includes disbursements of $479 million related to transactions carried out under the credit policy.

[2] This amount has been restated to take into account the net borrowings of institutions in the health and social services and education networks contracted in their own name.

[3] This amount includes a $1 494-million decrease in temporary borrowings.

TABLE D.29

Québec government
Summary of long-term borrowings[1] in 2010-2011[P]

Currency	$ million	%
CANADIAN DOLLAR		
Public issues	13 532	72.8
Private borrowings	2 440	13.1
Savings products	302	1.6
Business Assistance — Immigrant Investor Program	720	3.9
Canada Pension Plan Investment Fund	10	0.0
Subtotal	**17 004**	**91.4**
OTHER CURRENCIES		
US dollar	1 549	8.3
Euro	47	0.3
Subtotal	**1 596**	**8.6**
TOTAL	**18 600**[2]	**100.0**

P: Preliminary results.

[1] These amounts include borrowings of the consolidated revenue fund, borrowings for the Financing Fund and borrowings of Financement-Québec.

[2] To this amount will be added $286 million in borrowings to be contracted by Financement-Québec with the CMHC under the municipal infrastructure low-cost loans program. Accordingly, borrowings will total $18 886 million in 2010-2011.

TABLE D.30

Québec government
Borrowings for the consolidated revenue fund in 2010-2011P

Amount in Canadian dollars[1]	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
47[4]	35 €	4.025[5]	April 29	2030-04-29	100.000	4.020
204	—	4.50	June 8	2020-12-01	100.907	4.391
517	—	5.00	June 14	2041-12-01	103.476	4.785
214	—	4.50	July 16	2020-12-01	102.202	4.235
1 549	US$1 500	3.50	July 29	2020-07-29	99.607	3.547
523	—	5.00	July 30	2041-12-01	104.534	4.721
417	—	4.50	August 24	2020-12-01	105.249	3.875
492	—	5.00	September 13	2041-12-01	109.099	4.457
192	—	4.50	September 24	2020-12-01	105.300	3.865
562	—	5.00	October 1	2041-12-01	112.378	4.277
499	—	4.50	October 8	2020-12-01	107.133	3.652
465	—	4.50	October 25	2020-12-01	107.967	3.554
356	—	4.50	January 18	2020-12-01	103.199	4.102
530	—	5.00	January 28	2041-12-01	105.952	4.635
499	—	4.25	February 8	2021-12-01	99.652	4.290
498	—	4.25	February 11	2021-12-01	99.660	4.289
497	—	4.25	February 22	2021-12-01	99.388	4.321
302[6]	—	Various	Various	Various	Various	Various
720[7]	—	Zero coupon	Various	Various	Various	Various
10[8]	—	Various	Various	Various	Various	Various
9 093						

P: Preliminary results.

[1] Borrowings in foreign currency given in Canadian equivalent of their value on the date of borrowing.

[2] Interest payable semi-annually except if another frequency is indicated in a note.

[3] Yield to investor is determined on the basis of interest payable semi-annually.

[4] Private borrowing.

[5] Interest payable annually.

[6] Savings products issued by Épargne Placements Québec.

[7] Business Assistance — Immigrant Investor Program.

[8] Borrowings from the Canada Pension Plan Investment Fund.

TABLE D.31

Québec government
Borrowings for the Financing Fund in 2010-2011ᴾ

Amount in Canadian dollars	Face value in foreign currency	Interest rate[1]	Date of issue	Date of maturity	Price to investor	Yield to investor[2]
(millions)		%			$	%
499	—	4.50	April 9	2020-12-01	99.794	4.524
498	—	4.50	April 16	2020-12-01	99.636	4.543
502	—	5.00	April 29	2041-12-01	100.487	4.969
506	—	5.00	May 17	2041-12-01	101.192	4.925
512	—	5.00	June 1	2041-12-01	102.311	4.856
301	—	4.50	June 8	2020-12-01	100.907	4.391
297	—	4.50	July 16	2020-12-01	102.202	4.235
109	—	4.50	August 24	2020-12-01	105.249	3.875
53	—	5.00	September 13	2041-12-01	109.099	4.457
335	—	4.50	September 24	2020-12-01	105.300	3.865
37	—	4.50	October 8	2020-12-01	107.133	3.652
75	—	4.50	October 25	2020-12-01	107.967	3.554
265	—	4.50	November 19	2019-12-01	105.905	3.724
523	—	4.50	November 24	2020-12-01	104.573	3.943
263	—	4.50	November 29	2019-12-01	105.335	3.795
531	—	5.00	December 14	2041-12-01	106.224	4.620
160	—	4.50	January 18	2020-12-01	103.199	4.102
5 466						

P: Preliminary results.

[1] Interest payable semi-annually except if another frequency is indicated in a note.

[2] Yield to investor is determined on the basis of interest payable semi-annually.

TABLE D.32

Borrowings by Financement-Québec in 2010-2011[P]

Amount in Canadian dollars	Face value in foreign currency	Interest rate[1]	Date of issue	Date of maturity	Price to investor	Yield to investor[2]
(millions)		%			$	%
BORROWINGS FOR THE NETWORKS						
252[3]	—	5.25	May 4	2034-06-01	102.202	5.090
20[3]	—	Variable[4]	May 14	2016-06-02	99.371	Variable
490	—	3.50	June 18	2016-12-01	98.099	3.835
514	—	3.50	August 26	2016-12-01	102.787	3.008
168[3]	—	Variable[4]	October 8	2016-06-02	99.072	Variable
100[3]	—	Variable[4]	October 15	2016-06-02	99.131	Variable
323[3]	—	Variable[4]	October 29	2016-06-02	99.433	Variable
99[3]	—	Variable[4]	November 1	2016-06-02	99.436	Variable
114[3]	—	Variable[4]	November 2	2016-06-02	99.435	Variable
229[3]	—	Variable[4]	November 5	2016-06-02	99.438	Variable
99[3]	—	Variable[4]	November 9	2016-06-02	99.441	Variable
50[3]	—	Variable[4]	November 17	2016-06-02	99.700	Variable
100[3]	—	Variable[4]	December 10	2016-06-02	99.560	Variable
597	—	3.50	January 21	2017-12-01	99.430	3.594
3 155						
BORROWINGS FOR MUNICIPALITIES[5]						
133[3]	—	3.46[6]	July 1	2020-07-01	100.000	3.460
4[3]	—	3.83[6]	July 1	2025-07-01	100.000	3.830
280[3]	—	4.04[6]	July 1	2030-07-01	100.000	4.040
1[3]	—	3.59[6]	August 1	2025-08-01	100.000	3.590
1[3]	—	2.87[6]	October 1	2020-10-01	100.000	2.870
1[3]	—	3.35[6]	October 1	2025-10-01	100.000	3.350
8[3]	—	2.77[6]	November 1	2020-11-01	100.000	2.770
218[3]	—	3.28[6]	November 1	2025-11-01	100.000	3.280
21[3]	—	3.50[6]	November 1	2030-11-01	100.000	3.500
36[3]	—	3.59[6]	December 1	2025-12-01	100.000	3.590
43[3]	—	3.95[6]	February 1	2031-02-01	100.000	3.952
8[3]	—	3.54[6]	March 1	2021-03-01	100.000	3.540
111[3]	—	3.92[6]	March 1	2026-03-01	100.000	3.920
21[3]	—	4.12[6]	March 1	2031-03-01	100.000	4.120
886[7]						
4 041[7]						

P: Preliminary results.

[1] Interest payable semi-annually except if another frequency is indicated in a note.

[2] Yield to investor is determined on the basis of interest payable semi-annually.

[3] Private borrowings.

[4] Interest payable quarterly.

[5] Borrowings contracted with the CMHC under the municipal infrastructure low-cost loans program.

[6] Interest payable annually.

[7] To this amount will be added $286 million in borrowings to be contracted with the CMHC under the municipal infrastructure low-cost loans program. Accordingly, borrowings will total $4 327 million in 2010-2011.

TABLE D.33

Borrowings by Hydro-Québec in 2010[1]

Amount in Canadian dollars	Face value in foreign currency	Interest rate[2]	Date of issue	Date of maturity	Price to investor	Yield to investor[3]
(millions)		%			$	%
15[4]	—	3.29	February 23	2016-03-01	100.000	3.290
522	—	5.00	March 2	2050-02-15	104.418	4.752
6[4]	—	Zero coupon	April 22	2022-04-15	54.863	5.135
548	—	5.00	August 26	2050-02-15	109.527	4.483
567	—	5.00	October 19	2050-02-15	113.488	4.287
1 658						

1 Borrowings contracted from January 1 to December 31, 2010.
2 Interest payable semi-annually except if another frequency is indicated in a note.
3 Yield to investor is determined on the basis of interest payable semi-annually.
4 Private borrowings.

Section E

Budget Measures: Creating Wealth for the Future of All Quebecers

PREPARING FOR THE FUTURE BY BUILDING ON OUR WEALTH E.7

1. IMPLEMENTATION AND FUNDING OF THE NORTHERN PLAN E.7

    1.1 A business model tailored to the issues E.7

    1.2 Overall funding for the infrastructure investments and measures announced by the government E.8

        1.2.1 Public investments in strategic transportation infrastructure and telecommunications E.9

        1.2.2 Investments and measures for social projects to improve the quality of life of northern populations E.17

        1.2.3 Solicitation of private sector investments in resource development, including mineral resources E.19

    1.3 The first five-year plan E.21

    1.4 Equity participation for greater economic spinoffs E.22

        1.4.1 $500 million for equity participation E.22

        1.4.2 Various participation models E.23

    1.5 Funding of the infrastructure investments and measures announced by the government: Fonds du Plan Nord E.25

        1.5.1 An effective and cautious approach E.25

        1.5.2 Funding of the first five-year plan E.29

        1.5.3 Transactions of the Fonds du Plan Nord E.31

        1.5.4 Rigorous and transparent management E.33

2. OPTIMIZING THE RETURN ON OUR NATURAL RESOURCES E.35

2.1 Responsible natural gas production E.35

2.2 Taking advantage of growth in the mining sector E.37

2.3 Promoting the forest sector E.41

3. INVESTING IN THE POTENTIAL OF QUEBECERS E.45

3.1 Giving our youth a window on the world E.45

3.1.1 School 2.0: connected classrooms E.45

3.1.2 Intensive English instruction E.46

3.1.3 A sports culture in secondary schools E.46

3.2 Better funding for our sports infrastructure E.47

3.2.1 Increase in the envelope of the Sports and Physical Activity Development Fund E.47

3.3 Giving universities the means to achieve excellence E.48

3.3.1 A fair and balanced university funding plan E.48

3.3.2 Increased support for students through the student financial assistance program E.49

3.3.3 Recognizing the uniqueness and essentialness of the Centre hospitalier universitaire vétérinaire E.51

3.4 Capitalizing on the skills of experienced workers E.52

3.4.1 A demographic challenge that calls for action E.53

3.4.2 Introduction of a tax credit on work income of $10 000 for experienced workers E.56

3.5 Taking action now to ensure adequate retirement income for every generation E.63

***SEIZING THE OPPORTUNITIES* E.65**

4. DEVELOP AND DIVERSIFY EXPORT MARKETS E.65

4.1 Creation of Exportation Québec E.67

4.2 Introduction of the Export Program E.68

4.2.1 Enhanced support for exporters E.69

4.2.2 Enhanced support for organizations that support exporters E.70

4.2.3 Deployment of an international network of incubators E.70

4.3 Consolidate Québec's network of offices in emerging countries E.72

5. **ENCOURAGE ENTREPRENEURSHIP AND BUSINESS SUCCESSION E.73**
  - 5.1 Business creation and assistance for new entrepreneurs E.77
    - 5.1.1 Capital Anges Québec: $30 million for seeding and startup of technology businesses E.77
    - 5.1.2 Deferral of repayment of the loan envelope of local investment funds E.80
    - 5.1.3 Renewal of the local venture capital fund category E.80
  - 5.2 Entrepreneurial culture E.82
    - 5.2.1 Enhancement of entrepreneurship measures E.82
  - 5.3 Entrepreneurial succession E.82
    - 5.3.1 Creation of the Relève Québec Fund: $50 million for entrepreneurial succession E.82
    - 5.3.2 Additional local investment fund capital to foster entrepreneurial succession E.86
    - 5.3.3 Increase in the capitalization of Capital régional et coopératif Desjardins from $1 billion to $1.25 billion E.88
  - 5.4 Support for tourism businesses E.89
    - 5.4.1 $5-million fund to support the growth of tourism SMEs E.89
    - 5.4.2 Enhancement of regional tourism partnership agreements E.90

6. **PURSUING QUÉBEC'S DIGITAL SHIFT E.93**
  - 6.1 A digital Québec E.93

7. **SUPPORT THE DEVELOPMENT OF DERIVATIVES E.97**
  - 7.1 Proposed Institut de la finance structurée et des instruments dérivés de Montréal E.97

CONSOLIDATING OUR SOLIDARITY TOOLS **E.99**

8. **SUPPORTING FAMILIES AND SENIORS** **E.99**

8.1 Enhancement of the family policy E.99

8.1.1 Creation of 15 000 new reduced-contribution daycare spaces E.101

8.1.2 Additional funding for family community organizations and community daycare centres E.102

8.2 Meeting the local needs of seniors E.104

8.2.1 Seniors investment plan E.104

8.2.2 Greater access to the tax credit for informal caregivers of persons of full age E.105

8.2.3 Age-Friendly Municipalities Initiative E.106

8.2.4 Information hubs for seniors E.106

8.2.5 Maisons des grands-parents E.107

8.2.6 Compensation for seniors admitted to a CHSLD who must resiliate their lease E.107

8.2.7 Certification of residences for the elderly E.108

8.2.8 Additional support of $1.3 billion for seniors E.108

9. **CONTINUING THE FIGHT AGAINST POVERTY** **E.109**

9.1 Investment record to combat poverty E.109

9.1.1 Investments of $140 million in the construction of 2 000 new social and community housing units E.111

9.1.2 Gradual decrease in the eligibility age under the Shelter Allowance Program from 55 to 50 .... E.114

9.1.3 Improvement of the Financial Assistance Program for Domestic Help Services E.115

9.1.4 Support for community organizations that work with those most in need E.115

9.1.5 An additional $80 million to combat poverty E.116

10. CHOOSING SUSTAINABLE DEVELOPMENT E.117

- 10.1 Accelerating the arrival of electric vehicles E.118
  - 10.1.1 Tabling of an electric vehicle action plan E.119
  - 10.1.2 Replacement of the tax credit for the acquisition or leasing of a new green vehicle by a purchase rebate program E.119
- 10.2 Foster the development of ethanol fuel E.127
  - 10.2.1 Introduction of a refundable tax credit for cellulosic ethanol production E.128
  - 10.2.2 Support for the improvement of first-generation ethanol fuel production efficiency E.129
- 10.3 Developing solar power E.130
  - 10.3.1 Financing for pilot projects using operational solar energy E.130
- 10.4 Developing linkages between the Route verte and municipal networks E.131
- 10.5 Learning more about groundwater E.131

***CELEBRATING QUÉBEC CULTURE* E.133**

11. MAINTAINING A DYNAMIC CULTURE E.133

- 11.1 Promoting Québec culture on the world stage E.134
  - 11.1.1 Capital Culture Québec Fund: $100 million for major international cultural projects E.134
  - 11.1.2 Assistance for diffusion outside Québec of works in the arts and letters field E.137
  - 11.1.3 Recapitalization of the Fonds d'investissement de la culture et des communications E.137
- 11.2 Encourage the digital shift of the cultural industry E.138
  - 11.2.1 Support for the digital distribution of cultural works E.139
- 11.3 Infrastructure preservation and upgrading at the Musée des beaux-arts de Montréal E.142
- 11.4 Growth of the government's contribution to the cultural sector since 2003-2004 .... E.142

OTHER MEASURES IN THE 2011-2012 BUDGET **E.145**

12. OTHER MEASURES **E.145**

- 12.1 In vivo: developing a Québec personalized health care strategy E.145
- 12.2 Initiatives by health and social services institutions to improve performance E.145
- 12.3 Fight against tax evasion and unreported work E.146
- 12.4 Assistance for owners of a residence damaged by pyrrhotite E.146
- 12.5 Fixing of duties and implementation of fees for video lottery machine licences E.148
- 12.6 Committee on incentive compensation and the pay structure in the public sector E.148

AN OMNIBUS BILL **E.149**

PREPARING FOR THE FUTURE BY BUILDING ON OUR WEALTH

1. IMPLEMENTATION AND FUNDING OF THE NORTHERN PLAN

1.1 A business model tailored to the issues

Just over two years ago, the Premier invited all Quebecers to take part in the Northern Plan.

This plan is a valuable project for present and future generations. Seizing the substantial development opportunities afforded by the Plan will benefit the inhabitants of the territory concerned as well as Quebecers as a whole.

The territory covered by the Plan is inhabited by 120 000 people, including 33 000 Aboriginal people. A number of consensus-building mechanisms have been put in place to engage the communities concerned in the Plan's deployment. The government will, of course, proceed in accordance with the various agreements and treaties it has signed.

The territory has an extreme climate, with fragile ecosystems highly sensitive to climate change. Environmental protection and biodiversity conservation are thus major issues that will be fully addressed in the Northern Plan.

☐ A project to be unveiled soon

The Deputy Premier, Minister of Natural Resources and Wildlife and Minister responsible for the Northern Plan will unveil the Plan soon.

This is a large-scale project that will be implemented and funded according to a business model that reflects the issues. The government will thus play a crucial role in spurring private investment and carrying out the projects under its responsibility.

☐ Two initial initiatives

As part of the 2011-2012 Budget, the government is announcing two initial initiatives to set up the business model for the Northern Plan.

- It is setting up the Fonds du Plan Nord, which will identify and hold the sums required to finance most of the investments made by the government to carry out the Northern Plan.
- It is announcing infrastructure investments and measures totalling $1 625 million over the next five years.

  - Of that amount, $1 191 million is earmarked for infrastructure investments over the next five years. These investments will total $2 108 million once the Northern Plan is fully implemented, i.e. in 25 years.
  - These infrastructure investments and measures will be funded primarily through the Fonds du Plan Nord, out of a portion of the tax revenues from development of Québec's North. Budgets are allocated to coordinate these investments and measures as well as prospect for future investments.

- With the backing of Investissement Québec, the government will negotiate an equity interest in projects to ensure that the inhabitants of northern regions and Quebecers as a whole receive their fair share of the wealth created by the development of the resources on their territory. The government will allocate $500 million over the next five years for the negotiation of equity interests in future projects. This sum will be administered by Investissement Québec.

The government is immediately announcing:

- the overall funding for the infrastructure investments and measures identified for the first five-year plan under the Northern Plan;
- the process for taking an equity interest in projects in order to maximize economic spinoffs;
- the terms and conditions for the funding of these investments and measures.

1.2 Overall funding for the infrastructure investments and measures announced by the government

The territory covered by the Northern Plan harbours extensive mineral resources and has substantial energy generation potential. These resources will be developed thanks to considerable public - Hydro-Québec - and private investments, in addition to the government's investments.

In addition to mining and power generation, the territory offers other development opportunities - tourism, wildlife and forest resources - that could be tapped. Developing these resources would also entail significant investments, mostly from the private sector.

☐ For rapid deployment of the Northern Plan

To secure the anticipated private-sector investments, the government is announcing a series of investments and measures to ensure rapid deployment of the Northern Plan.

They are:

- public investments in strategic transportation infrastructure and telecommunications;
- public investments and measures in social projects in order to improve the quality of life of northern populations;
- solicitation and promotion measures taken abroad by Investissement Québec to attract private investors in keeping with the mandate entrusted to it by the Ministère du Développement économique, de l'Innovation et de l'Exportation, in cooperation with the Ministère des Ressources naturelles et de la Faune and the other departments concerned.

1.2.1 Public investments in strategic transportation infrastructure and telecommunications

Deployment of the Northern Plan requires that the government invest in strategic transportation infrastructure and modes.

- Due to the remoteness and vast size of the territory, resource development is largely dependent on the availability of suitable transportation infrastructure and modes. Transportation infrastructure and modes, as well as modern telecommunications systems, are vital to opening up the territory for development and shipping exploited resources to markets.
- Suitable transportation infrastructure and modes are also vital to improving the quality of life of the territory's inhabitants, as are telecommunications systems to offset the remoteness of the area.
- Concretely, a better transportation infrastructure will reduce the cost of living for northern communities.

Public investments in transportation infrastructure and telecommunications will thus relieve the isolation and open up the territory for development purposes while having an immediate and positive impact on the inhabitants' quality of life.

☐ Priorities

The government will invest in strategic transportation and telecommunications infrastructure because of their impact on the development of areas with the highest development potential. When deciding on government investments, priority will be given to energy and mining projects and projects offering the most development opportunities.

These investments will directly benefit the local populations by reducing transportation costs and offering new travel possibilities.

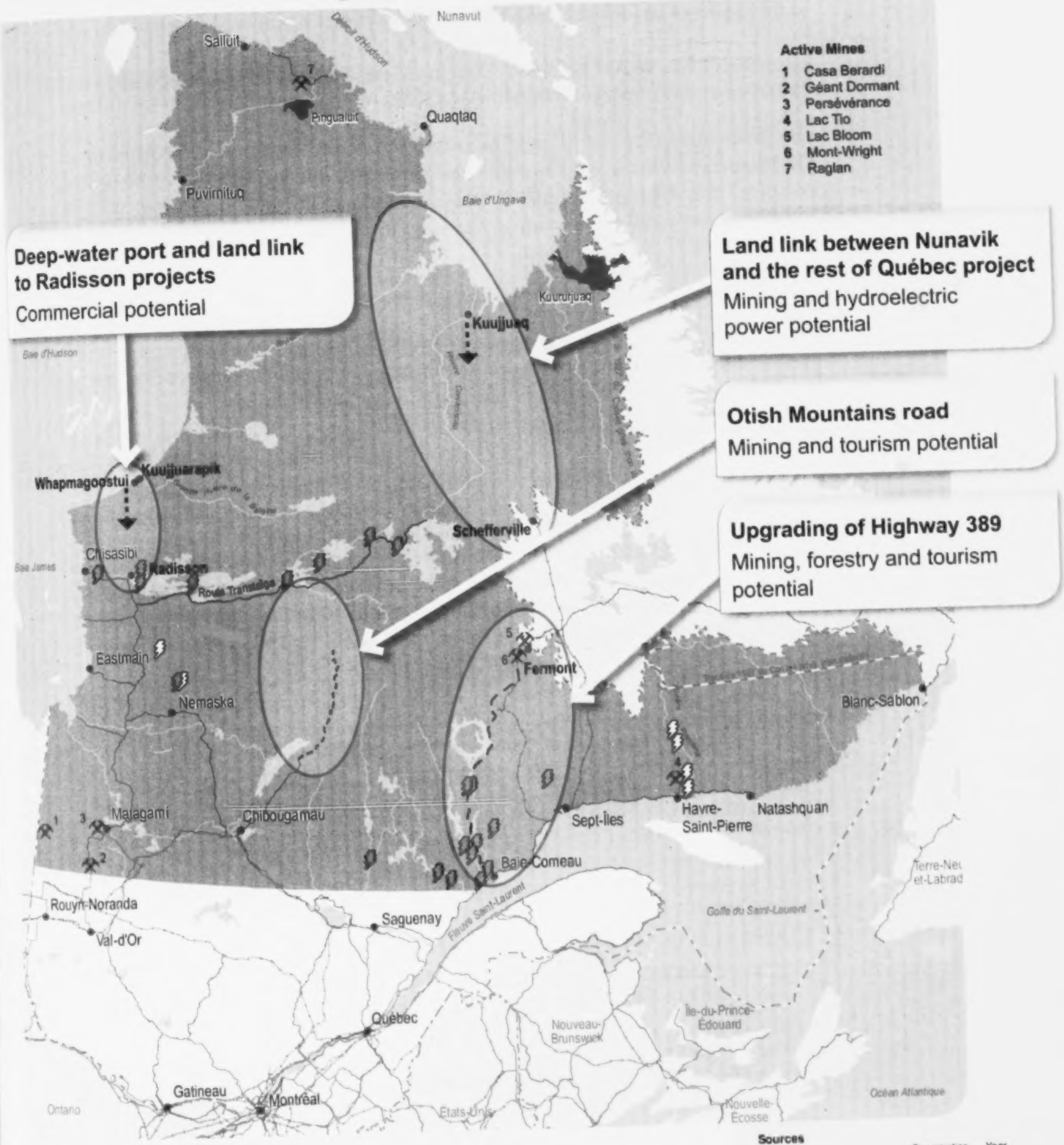
Four investments in road, rail and port infrastructure in four areas with high development potential are being announced immediately.

They are:

- extension of Route 167 to the Otish Mountains, which will begin this summer;
- upgrading of Highway 389 between Baie-Comeau and Fermont, to be carried out over a 10-year period;
- studies for the construction of a land link between Nunavik and the rest of Québec;
- studies for the construction of a deep-water port at Whapmagoostui-Kuujjuarapik and a road from the port to Radisson.

These four projects represent total government investments of nearly $570 million over the next five years - and $784 million over the total period of the Northern Plan.

Areas opened up due to their high development potential


Nunavut
Détroit d'Hudson
Salluit
7
Pingualuit
Quaqtaq
Puvirnituq
Baie d'Ungava
Kuururjuaq
Kuujjuaq
Baie d'Hudson
Whapmagoostui
Kuujjuarapik
Schefferville
Chisasibi
Radisson
Baie James
Route Transtaïga
Eastmain
Nemaska
5
6
Fermont
Blanc-Sablon
4
Havre-Saint-Pierre
Natashquan
Sept-Îles
1
3
Matagami
2
Chibougamau
Baie-Comeau
Terre-Neuve-et-Labrador
Rouyn-Noranda
Val-d'Or
Saguenay
Fleuve Saint-Laurent
Golfe du Saint-Laurent
Québec
Nouveau-Brunswick
Île-du-Prince-Édouard
Gatineau
Montréal
Ontario
États-Unis
Nouvelle-Écosse
Océan Atlantique

Active Mines

1 Casa Berardi
2 Géant Dormant
3 Persévérance
4 Lac Tio
5 Lac Bloom
6 Mont-Wright
7 Raglan

Deep-water port and land link to Radisson projects
Commercial potential

Land link between Nunavik and the rest of Québec project
Mining and hydroelectric power potential

Otish Mountains road
Mining and tourism potential

Upgrading of Highway 389
Mining, forestry and tourism potential

Borders

International Border
Interprovincial Border
Québec – Newfoundland-and-Labrador Border (this border is not final)

⚒ Active Mine
Functioning Hydroelectric Generating Station
Hydroelectric Generating Station Under Construction
Road Link Improvement Project
Road Link Construction Project
National Park of Québec
Area Covered by Plan Nord
Development of a Land Link

Sources

Data	Organization	Year
Territorial Divisions	MRNF	2011
Mining Data	MRNF	2011
Hydroelectric Infrastructure	Hydro-Québec	2011
National Parks of Québec	MDDEP	2011
Road Projects	MTQ	2011

Realisation

Ministère des Ressources naturelles et de la Faune
Direction générale adjointe de l'information géographique
Note : This document has no legal value

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0 200 km

☐ Extension of Route 167 to the Otish Mountains

Extending Route 167 to the Otish Mountains alone entails an investment of nearly $280 million over the next five years.

The area served by the Route 167 extension stretches from the northeast of Mistissini Lake to the Trans-Taiga road leading to the La Grande hydroelectric complex. The mining potential of this area is both huge and diverse. Various exploration projects are already under way, in particular companies prospecting for:

- diamonds (Stornoway);
- uranium (Strateco Resources and Abitex Resources);
- copper/molybdenum (Western Troy);
- gold (Eastmain Resources).

The area is currently served by a winter road. Extending Route 167 to the Otish Mountains will make the territory less isolated and facilitate mineral exploration.

Extension of Route 167 will also have a direct impact on the development of the region's tourism resources. The new road will provide access to the future Albanel-Témiscamie-Otish national park and thereby enable development of the natural, cultural and historical heritage of an area more than 11 000 km^2. It will make it much easier for Cree families to get to their traplines.

Extension of Route 167 to the Otish Mountains

This project will add 260 km to Route 167 and take it as far as the Otish Mountains. A future phase could extend the road as far as the Trans-Taiga road, linking Radisson to the Caniapiscau reservoir.

The Otish Mountains region is currently hard to get to: the only access is an ice road in winter and it serves only part of the project area. In summer, the only access to the territory is provided by seaplane.

Extending Route 167 to the Otish Mountains is a major engineering feat:

- Construction of the new road will require building some 20 bridges and many culverts in order to cross 76 watercourses.
- Site preparation will involve substantial deforestation and the establishment of several temporary work camps.

❑ Upgrading of Highway 389 between Baie-Comeau and Fermont

Upgrading Highway 389 between Baie-Comeau and Fermont will require an investment of just over $200 million over the next five years and nearly $420 million in all.

The area around Fermont is rich in iron ore. Several big projects are currently operating, such as the Mt. Wright mine, the Lac Bloom mine and the Fire Lake mine.

Highway 389 also provides access to vast forested areas and many hydroelectric facilities. It is the only way to get to the Manicouagan World Biosphere Reserve.

Upgrading Highway 389 will facilitate resource exploitation in the Fermont region as well as development of significant forest and energy resources. It will provide access to major tourist sites. It will facilitate the transportation of people and food supplies from municipalities to the south, which will immediately affect the quality of life of the region's inhabitants.

Highway 389 between Baie-Comeau and Fermont

Highway 389 lies in the Côte-Nord administrative region. It is nearly 570 km long and stretches from Baie-Comeau to the Labrador border, running through the city of Fermont.

It consists of three sections.

- Several sections are very winding. The sections were built at three different times to meet specific needs.
- Some sections are in need of major repair, even new alignments, to make them safer and more comfortable for users. In particular:
  - the part of Highway 389 running between Fermont and Fire Lake;
  - construction of major crossings over Aux Pékans river and De La Rue lake;
  - correction in the geometry of some 100 bends;
  - drainage improvement;
  - widening in certain spots of the road.

The work will be carried out in five stages.

☐ Construction of a land link between Nunavik and the rest of Québec

Construction of a land link between Nunavik and the rest of Québec, east of the territory covered by the Northern Plan, will require initial studies entailing total investments of nearly $57 million over the next five years.

The land link will provide access to the Labrador Trough, which stretches 60 000 km^2 between Schefferville and Ungava Bay. Although geological surveying of the Trough is not complete, we know that this region is rich in iron ore (New Millenium mining project near Schefferville), copper, zinc and nickel deposits.

The land link will also improve access to the Caniapiscau River and reservoir located at the head of the La Grande hydroelectric complex. If developed, the Caniapiscau River could potentially generate 1 600 MW of hydroelectric power.

The land link connecting Nunavik to the rest of Québec could be either a road or railway.

It would link the Inuit community of Kuujjuaq to the rest of Québec, which would have an immediate and direct impact on the cost of living in Kuujjuaq and neighbouring communities. Currently, food supplies are flown in by cargo plane.

Land link between Nunavik and the rest of Québec

Building a land link between Nunavik and the rest of Québec is a massive project covering a total distance of 500 km. The project requires a series of geomorphological studies, technical-data collection and environmental and social impact studies.

Geomorphological studies

Geomorphological studies will make it possible to determine the feasibility of the envisaged corridor (one or two corridors, road or railway).

The purpose of the studies will be to:

- collect geomorphological data;
- interpret the collected data;
- optimize a corridor based on physical constraints;
- evaluate the potential of granular material;
- evaluate watercourse crossings;
- assess environmentally sensitive areas, such as peatlands and archaeological sites.

Technical-data collection

The project will also require collection of an array of technical data, including:

- aerial surveys and a corridor alignment study of the 500 km covered by the project;
- airborne surveys of the selected corridor;
- aerial photographs.

Environmental and social impact studies

Construction of a land link between Nunavik and the rest of Québec will be preceded by environmental and social impact studies in accordance with the laws and decrees in effect and the James Bay and Northern Québec Agreement and Northeastern Québec Agreement.

☐ Construction of a deep-water port at Whapmagoostui-Kuujjuarapik and a road to Radisson

Construction, in the western part of the territory, of a deep-water port at Whapmagoostui-Kuujjuarapik and a road between the port and Radisson will be preceded by feasibility studies. The government will allocate nearly $33 million for these studies over the next five years.

There is considerable economic and social interest in building a deep-water port at Whapmagoostui-Kuujjuarapik. The port would have substantial spinoffs, as it could serve a vast area, including Nunavik as well as parts of northern Canada, namely central and eastern Nunavut.

If the Northwest Passage is opened, the Whapmagoostui-Kuujjuarapik deep-water port would provide a trade route, in particular for markets Russia, Norway and Greenland.

Deep-water port at Whapmagoostui-Kuujjuarapik and road to Radisson

Construction of the Whapmagoostui-Kuujjuarapik deep-water port will necessitate major preliminary studies of the economic potential of such a project.

Studies will also be conducted to determine the best site for the port and the conditions for building the 250-km corridor linking the port to Radisson.

The studies conducted for the corridor will be of the same nature as those conducted for construction of the land link between Nunavik and the rest of Québec, i.e. geomorphological studies, technical-data collection and environmental and social impact studies.

1.2.2 Investments and measures for social projects to improve the quality of life of northern populations

The government will contribute directly to social projects carried out in the territory covered by the Northern Plan, in particular:

- support for the development of social housing in northern communities;
- investment in human health;
- investment in education;
- establishment of parks and protected areas.

These investments are vital: developing Québec's North and improving the quality of life of its inhabitants are closely tied.

- Investments in social capital facilities will relate to social housing, health, education, culture and recreation and tourism.
- Social spending will target health, education and housing.

☐ $1.2 billion in infrastructure investments, nearly $400 million in social measures

To improve transportation and meet social needs, the government is announcing total funding of:

— $1 191 million for its total infrastructure investments in the territory covered by the Northern Plan over the next five years, i.e. $2 108 million over 25 years;

— $382 million for all social measures over the next five years in the territory covered by the Northern Plan.

The effort is thus substantial.

The Deputy Premier, Minister of Natural Resources and Wildlife and Minister responsible for the Northern Plan will announce the details of the infrastructure investments and measures identified for the next five years.

Budgets are allocated to ensure coordination of these investments and measures.

TABLE E.1

Infrastructure investments in the territory covered by the Northern Plan
(millions of dollars)

	Total over 5 years	Total at end of the Plan
- Extension of Route 167 to the Otish Mountains	278.6	**278.6**
- Repairs to Highway 389 between Baie-Comeau and Fermont	201.5	**415.5**
- Land link between Nunavik and the rest of Québec	56.8	**56.8**
- Road between Whapmagoostui-Kuujjuarapik and Radisson	32.8	**32.8**
- Other infrastructure projects[1]	621.6	**1 324.5**
TOTAL	**1 191.3**	**2 108.2**

Note: Figures have been rounded off, so they may not add up to the total indicated.

[1] Including investments under the Québec Infrastructures Plan totalling $508.3 million over five years and $1 188.3 million over 25 years.

1.2.3 Solicitation of private sector investments in resource development, including mineral resources

Power generation investments and mining investments are the two engines of northern development.

— Investments in power generation - large dams and wind power - will be under the responsibility of Hydro-Québec.

— Mining investments will essentially come from the private sector.

It is important to attract mining investors and step up investment decisions. This will require a specific effort on the part of the government.

— Steps must be taken to make it easier to attract investors, convince them of the development prospects they are being invited to invest in and to eventually share the risks.

— The same holds true for the other investments needed for resource development in the North, in particular development of forest, wildlife, tourism and biofood resources.

☐ A mandate entrusted to Investissement Québec and the Ministère du Développement économique, de l'Innovation et de l'Exportation

Investissement Québec and the Ministère du Développement économique, de l'Innovation et de l'Exportation (MDEIE) will be responsible for creating business opportunities in the territory covered by the Northern Plan, in cooperation with the Ministère des Ressources naturelles et de la Faune and the other departments concerned. Investissement Québec will conduct activities aimed at soliciting foreign investors.

Investissement Québec has recognized expertise in soliciting investors. In addition, since merging with the Société générale de financement (SGF), the new Investissement Québec has taken on the teams of the Société québécoise d'exploration minière (SOQUEM) and the SGF responsible for mining investments.

The new mandate entrusted to Investissement Québec, under the coordination of the MDEIE, is consistent with the recent changes to the government corporation. It provides the Northern Plan with the services of seasoned teams and in-depth knowledge of the sectors concerned. Sums will be earmarked over the next five years for solicitation and investment prospecting purposes.

Merger of the Société générale de financement and Investissement Québec

In merging the SGF and Investissement Québec, the government has created a stronger financial institution whose operations are more coherent. The purpose of the new corporation is to stimulate growth in investment and support employment in all regions of Québec.

- The new body is a one-stop service provider and the portal for potential investors.
- It has more resources for defending and promoting Québec's economic interests.

An integrated financial arm makes the government more efficient, streamlines structures and reduces budgetary expenditure, while fostering more investment and making Québec businesses more competitive.

Merging the financing and investment activities of the two corporations substantially improves efficiency and effectiveness through:

- a clearer mission;
- consolidated leadership;
- more coherent action;
- a better overall view of things;
- complementary expertise of the two corporations.

In the context of global economic recovery, a new economic space and a globalized economy, the merger of the SGF and Investissement Québec, as well as better coordination of foreign prospecting activities will help businesses invest to increase their productivity.

☐ Promoting and facilitating investment

As part of their solicitation mandate, Investissement Québec and the MDEIE will be responsible for promoting and facilitating investment projects in northern Québec.

Their mission will be to bring capital from local, Québec, Canadian and foreign investors to the area north of the 49th parallel and facilitate economic projects.

The solicitation and support activities of Investissement Québec and the MDEIE will not be limited to mining projects: they will also extend to projects targeting the other resources to be developed, in particular forest, wildlife and tourism resources as well as primary processing of metals and wood products. This work will be carried out in cooperation with the Ministère des Ressources naturelles et de la Faune and the other departments concerned.

1.3 The first five-year plan

The overall funding for the measures and infrastructure investments announced by the government has been set for the period 2011-2016.

- The first five-year plan under the Northern Plan entails infrastructure investments totalling $1 191 million over the next five years.
- The first five-year plan also includes social spending and spending dedicated to investment prospecting and coordination totalling $434 million.
- The government is thus announcing $1 625 million in infrastructure investments and measures over the next five years.

TABLE E.2

Initiatives in the territory covered by the Northern Plan
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total over 5 years
Infrastructure investments						
- Extension of Route 167 to the Otish Mountains	60.9	61.6	52.9	55.4	47.8	**278.6**
- Repairs to Highway 389 between Baie-Comeau and Fermont	6.4	15.4	51.4	66.1	62.2	**201.5**
- Land link between Nunavik and the rest of Québec	0.8	1.0	15.0	20.0	20.0	**56.8**
- Deep-water port at Whapmagoostui-Kuujjuarapik and a land link between the port and Radisson	0.8	2.0	5.0	10.0	15.0	**32.8**
- Other infrastructure projects[1]	127.7	115.9	121.4	142.1	114.6	**621.6**
Subtotal	**196.6**	**195.9**	**245.7**	**293.6**	**259.6**	**1 191.3**
Spending measures						
- Social measures for local communities[2]	80.0	90.4	69.7	72.8	69.3	**382.2**
- Investment prospecting and coordination of the Northern Plan's implementation	5.0	10.0	12.0	12.2	12.8	**52.0**
Subtotal	**85.0**	**100.4**	**81.7**	**85.0**	**82.1**	**434.2**
TOTAL	**281.6**	**296.3**	**327.4**	**378.6**	**341.7**	**1 625.5**

Note: Figures have been rounded off, so they may not add up to the total indicated.

[1] Including investments under the 2010-2015 Québec Infrastructures Plan totalling $508.3 million over five years.

[2] Including the contribution of government departments and agencies and their partners totalling $216.6 million over five years.

1.4 Equity participation for greater economic spinoffs

The economic development of northern Québec will have economic and fiscal impacts that will benefit both the local communities and Quebecers as a whole.

As the funding of the Northern Plan will show, a portion of the tax revenues will serve to fund social initiatives and economic development projects that benefit northern populations. Jobs will be created for the residents of northern communities as well as Quebecers in general.

1.4.1 $500 million for equity participation

The government wants to go further and make sure that Quebecers reap their fair share of the wealth created by resource development on their territory.

Accordingly, the government intends to take equity interests in future projects.

- Backed by Investissement Québec, the government will negotiate an equity interest in projects promising a developmental effect in the territory covered by the Northern Plan.
- Investissement Québec will administer new funding of $500 million allocated over the next five years for that purpose.
- The funding will be deposited in the Fonds du développement économique, an economic development fund administered by Investissement Québec under the responsibility of the MDEIE.
- An investment committee composed of representatives of the departments and organizations involved will be attached to the Fonds de développement économique. Its job will be to make recommendations on planned equity participation.
- The committee will make its recommendations after getting the opinion of the Ministère des Ressources naturelles et de la Faune, following which the recommendations will be submitted to the Minister of Economic Development, Innovation and Export Trade and the Minister of Finance for their approval.

1.4.2 Various participation models

This new funding will enable the government to take an equity interest in economic projects in the territory covered by the Northern Plan. It will do so on a business basis, with the aim of getting a return on its investment.

Opportunities abound.

- Equity participation could follow a joint venture model.
- Equity participation could take the form of capital stock or investment in convertible debentures.
- The type of participation will be determined on the basis of the desired degree of involvement.

☐ Criteria

For each project, the type of participation will be decided based on the risks involved, the anticipated return and the desired degree of involvement.

- Investissement Québec will assist the government in selecting projects, based on the criteria of profitability and a project's developmental effect on the territory.
- The selected projects will be reviewed by the investment committee attached to the Fonds du développement économique.

☐ Flexibility

Government approval will be required for:

- an equity interest equal to more than 30% of the project cost: this percentage may be higher where the acquisition of an equity interest is valued at less than $10 million;
- a business takeover;
- any equity interest of over $50 million in a project.

Investissement Québec will be able to put together the financing package for a project using its own funding tools.

Two examples of equity participation

Osisko

In 2009, the Société générale de financement invested $75 million in Osisko.

- The funding agreement with Osisko Mining Corporation is in the form of a senior unsecured debenture convertible into shares of Osisko at a price of $9.18 per share, bearing interest at a rate of 7.5%.
- Osisko's shares closed at $13.54 on March 11, 2011. Thus, at the current share price, the SGF's investment in Osisko has appreciated significantly.

This investment will advance development of the Canadian Malartic gold property near Val-d'Or in the Abitibi-Témiscamingue region, which will require investments of nearly $1 billion. Approximately $900 million had been invested as at December 31, 2010.

The corporation expects to produce approximately 600 000 ounces of gold and 700 000 ounces of silver per year for around ten years.

Stornoway

In December 2010, the Société générale de financement signed an equity agreement with Stornoway Diamond Corporation.

The agreement, which will take effect on April 1, 2011, gives Investissement Québec a 37% interest in Stornoway.

- Investissement Québec will obtain 25% of the voting common shares of Stornoway.
- Investissement Québec will also obtain non-voting convertible shares, which would take its total interest in Stornoway to 37%.

In addition to a 37% interest in Stornoway, Investissement Québec will receive a 2% royalty[1] on the value of the production of the Renard project, a major undeveloped diamond deposit in north-central Québec.[2] The Renard Diamond Project is located approximately 350 km north of Chibougamau, in the James Bay region. In May 2010, potential production was estimated at 30 million carats over a 25-year mine life.

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[1] Periodical payments made in consideration for benefits granted by contractual agreement.

[2] In return for the SGF's investment in Stornoway, Diaquem, a subsidiary of SOQUEM, itself a wholly owned subsidiary of the SGF, will cede its 50% interest in the Renard Diamond Project held since 1996.

1.5 Funding of the infrastructure investments and measures announced by the government: Fonds du Plan Nord

The Northern Plan will be funded - and thereby implemented - according to a model that takes into account the associated risks as well as development potential.

The government is setting up a special fund called the Fonds du Plan Nord specifically for that purpose.

- The Fund will provide the sums required to finance most of the initiatives identified in each five-year plan under the Northern Plan.
- The Fonds du Plan Nord will obtain most of its funding from a portion of the tax revenues from the development activities carried out in northern Québec.

1.5.1 An effective and cautious approach

The government is taking an effective, but cautious approach.

☐ An effective model

The development potential in the North is enormous. Major investments - in large part public - will be required to tap that potential.

The government is defining a business model that will capitalize on investment spinoffs to continue or step up northern development once the government has provided the initial help crucial for the deployment of this major project.

Creation of the Fonds du Plan Nord draws a direct link between:

- the economic activity triggered by the Northern Plan;
- the spinoffs from that activity;
- the resources invested to support new investment projects and improve the quality of life of the territory's inhabitants.

☐ A cautious approach

It is also a cautious approach. The leeway available for funding the investments under the Northern Plan over a given period will depend on the tax revenues the government actually receives from projects carried out in the North.

- If the investments and resulting tax revenues are higher than anticipated, the government will go further and inject additional sums.
- If the anticipated spinoffs do not materialize, the government will invest at a slower pace.

This approach will protect the government - and thus all taxpayers - against the potential impact of a lower-than-excepted level of private investment.

- The mining sector is highly sensitive to the global economic environment.
- The current environment is very favourable to resource development in northern Québec, but it is crucial that we protect ourselves should the economy sour.

It is vital that the Northern Plan be deployed while respecting the overall financial framework defined by the government, in particular the level of government spending, the plan to restore fiscal balance and debt reduction.

Accordingly, the government undertakes to deploy the Northern Plan while balancing the spending and revenue related to the Plan each year.

☐ Fonds du Plan Nord: a special fund for the Northern Plan

The government is creating a special fund for the purposes of implementing this business model. The Fonds du Plan Nord will be dedicated to implementing the Northern Plan's development strategy.

■ A portion of tax revenues

The Fund is fed by a portion of the tax revenues generated by economic activity in the territory of the Northern Plan:

These revenues include:

- direct tax revenues from new mining projects;
- direct and indirect tax revenues from new Hydro-Québec projects, including the tax on public services;
- direct and indirect tax revenues related to public infrastructure projects.

The amounts levied on own-source revenue on the basis of these tax revenues will be determined for a five-year period.

They will be reviewed each year to reflect the evolving nature of the projects being carried out and the tax revenues actually received by the government.

■ Other revenue for the Fund

Other revenues will be added to the Fonds du Plan Nord.

They include:

- contributions payable by private and public partners to fund infrastructures essentially built for their use (these contributions will take the form of user fees or a specific contribution to project funding);
- Hydro-Québec's contribution to the funding of social projects, set at $10 million per year.

All of these revenues will finance the five-year plans for the deployment of the Northern Plan, and are in addition to the funding that comes from budgetary appropriations or the self-financing activities of government departments and agencies.

Funding of the Northern Plan: revenue sources other than government tax revenues

Contributions payable by private and public partners

The Fonds du Plan Nord will finance new strategic infrastructures, in particular related to transportation. Strategic infrastructures will enable:

- the carrying out of several economic projects, in particular mining and hydroelectric development projects;
- opening up of the territory for myriad uses.

These new strategic infrastructures will be financed in partnership with the private sector and other levels of government.

The federal government will be invited to help finance these new strategic infrastructures, considering in particular the benefits it could derive from natural resource development in northern Québec.

Hydro-Québec contribution

Hydro-Québec will help finance social projects carried out under the Northern Plan through a contribution of $10 million per year, i.e. a third of the total value of social projects.

This contribution will enable Hydro-Québec to improve its brand image by partnering in social projects designed to improve the social and economic conditions in communities within the territory of the Northern Plan.

☐ Revenue from water-power royalties deposited in the Generations Fund

The government has a policy whereby water-power royalties are deposited in the Generations Fund.

This policy will be maintained.

☐ Mining duties

As regards mining duties, the government's policy is that Québec society as a whole should benefit from revenues collected by the government. This policy will be maintained for mining duties collected in the territory of the Northern Plan.

More specifically:

- The 2011-2012 Budget provides that, as of 2014-2015, all net mining, oil and gas royalties collected by the government will be deposited in the consolidated revenue fund, up to $200 million.
- One quarter of the royalties in excess of $200 million will be deposited in the Generations Fund, and the remaining three quarters in the government's consolidated revenue fund.

- The aim is to enable all Quebecers, especially future generations, to benefit from the wealth created by development activities under the Northern Plan. Mining, oil and gas royalties will contribute to the government's priorities reflecting the need of all Quebecers – including health and education.

1.5.2 Funding of the first five-year plan

The infrastructure investments and measures announced by the government between now and 2015-2016 in respect of the first five-year plan under the Northern Plan will be financed through the Fonds du Plan Nord and other sources.

- With regard to investments:
  - The Fonds du Plan Nord will fund infrastructure investments of $683 million by making investment-related expenditures of $56 million.
  - The other investments, i.e. $508 million, are earmarked in the 2010-2015 Québec Infrastructures Plan or will be financed through other budgetary appropriations in the expenditure budget.
- With regard to expenditures:
  - Expenditures totalling $218 million will be financed through the Fonds du Plan Nord, i.e.:
    - $166 million in social measures for the communities;
    - $52 million for the implementation and coordination of the Northern Plan.
  - An amount of $217 million will be financed government departments and agencies, i.e.:
    - $175 million for measures already planned by departments and agencies;
    - $42 million from contributions by departments, agencies and their partners matching the amounts drawn from the Fonds du Plan Nord.

TABLE E.3

Breakdown of initiatives in the territory covered by the Northern Plan, by financing

(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total over 5 years
Infrastructure investments						
Financed through the Fonds du Plan Nord	31.3	40.7	172.6	228.1	210.4	**683.0**
Financed through the 2010-2015 Québec Infrastructures Plan or appropriations included in the expenditure budget of departments	165.3	155.3	73.1	65.5	49.3	**508.3**
Subtotal – Investments	**196.6**	**195.9**	**245.7**	**293.6**	**259.6**	**1 191.3**
Spending measures						
Social measures for local communities						
– Financed through the Fonds du Plan Nord[1]	22.7	29.3	36.0	37.8	39.8	**165.6**
– Financed by departments and agencies	57.3	61.1	33.7	35.0	29.5	**216.6**
▪ *Matching of amounts drawn from the Fonds du Plan Nord*	*5.0*	*7.0*	*10.0*	*10.0*	*10.0*	**42.0**
▪ *Measures already planned*	*52.3*	*54.1*	*23.7*	*25.0*	*19.5*	**174.6**
Subtotal – Social measures for local communities	**80.0**	**90.4**	**69.7**	**72.8**	**69.3**	**382.2**
Investment prospecting and coordination of implementation[2]	5.0	10.0	12.0	12.2	12.8	**52.0**
Subtotal – Measures and spending	**85.0**	**100.4**	**81.7**	**85.0**	**82.1**	**434.2**
TOTAL	**281.6**	**296.3**	**327.4**	**378.6**	**341.7**	**1 625.5**

Note: Since figures are rounded, they may not add up to the totals shown.

[1] Including Hydro-Québec's contribution of $10 million per year.

[2] Financed through the Fonds du Plan Nord.

1.5.3 Transactions of the Fonds du Plan Nord

Over the next 25 years, the territory covered by the Northern Plan will see unprecedented development activity. That is why the figures of the business model were calculated for a 25-year time horizon before determining how the first five-year plan would be funded.

☐ Revenue

For the purposes of preparing and ensuring funding of the first five-year plan, the government drew up a list of definite investments over the next five years.

Based on those investments, $2.1 billion in tax revenues will be transferred to the Fonds du Plan Nord over the next 25 years.

The first five-year plan will be financed through the portion of those tax revenues collected by the government between now and 2015-2016, amounting to $235 million.

That amount is in addition to the other sources of revenues, namely:

- public and private partner contributions for their use of the infrastructures, estimated at $4 million;
- Hydro-Québec's contributions to the funding of social projects, estimated at $50 million.

The total revenues amassed in the Fonds du Plan Nord to finance the first five-year plan will amount to $289 million.

☐ Expenditure

Expenditures from the Fonds du Plan Nord amount to $274 million over the next five years.

- Approximately one fifth of that amount, or $56 million, will be earmarked for investment-related spending for the various infrastructure projects undertaken in the territory of the Northern Plan in the coming years.
- Social spending is estimated at $166 million.
- A total of $52 million is earmarked in the Fonds du Plan Nord for the coordination and implementation of the Northern Plan and for investment prospecting.

❑ Revenue and expenditure of the Fonds du Plan Nord during the first five-year plan

The first five-year plan prepared by the government breaks down the different revenue sources of the Fonds du Plan Nord for each year until 2015-2016, as well the expenditures made by the Fund.

— The breakdown shows that the five-year plan - and thus implementation of the Northern Plan - will be deployed gradually over the next five years.

— At the end of that period, the government anticipates a $15-million surplus of revenue over expenditure for the Fonds du Plan Nord.

TABLE E.4

Transactions of the Fonds du Plan Nord
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total over 5 years
Revenue						
- Tax revenues[1]	19.0	30.0	44.0	61.0	81.1	**235.1**
- Partner contributions	0.0	0.0	0.0	1.2	2.5	**3.7**
- Hydro-Québec contribution	10.0	10.0	10.0	10.0	10.0	**50.0**
Subtotal	**29.0**	**40.0**	**54.0**	**72.2**	**93.6**	**288.8**
Expenditure						
- Investment-related spending	0.0	0.0	– 3.8	– 17.5	– 34.7	**– 56.0**
- Social measures for local communities	– 22.7	– 29.3	– 36.0	– 37.7	– 39.8	**– 165.6**
- Investment prospecting and coordination of implementation of the Northern Plan	– 5.0	– 10.0	– 12.0	– 12.2	– 12.8	**– 52.0**
Subtotal	**– 27.7**	**– 39.3**	**– 51.8**	**– 67.5**	**– 87.4**	**– 273.6**
SURPLUS	**1.3**	**0.7**	**2.2**	**4.7**	**6.3**	**15.2**

Note: Since figures are rounded, they may not add up to the totals shown.

[1] Amounts drawn from the government's own-source revenue paid to the Fonds du Plan Nord, based on tax revenues.

1.5.4 Rigorous and transparent management

The business model established by the government for the purposes of the Northern Plan will include exemplary authorization and accountability processes to ensure that this major project is carried out with the necessary degree of rigour and transparency.

☐ Framework for the Fonds du Plan Nord

The Fonds du Plan Nord will be under the responsibility of the Minister of Finance. The Minister will prepare a bill authorizing the Fund's creation.

The statute establishing the Fonds du Plan Nord will stipulate:

- the revenue sources of the Fonds;
- the terms for adjusting amounts by decree;
- the information required before sums can be drawn from the Fund.

The Fonds du Plan Nord will be administered under strict rules.

- The Minister of Finance will be responsible for allotting the various dedicated revenues to the Fonds du Plan Nord each year. This allotment will be defined in the statute establishing the Fonds du Plan Nord.
- The budget forecasts of the Fonds du Plan Nord must be approved by the government each year. The forecasts will be included in the government's five-year financial framework.
- Each year, the expenditures and investments financed through special funds, including the Fond du Plan Nord, must be submitted to the National Assembly for approval, as stipulated in the bill concerning special funds that the Minister of Finance will be tabling this spring.
- The financial statements of the Fonds du Plan Nord will be included in the Auditor General's annual audit of the government's financial statements.
- The Ministère des Finances will include a section on the Fonds du Plan Nord in the annual management report it submits to the National Assembly.

☐ Use of the resources of the Fonds du Plan Nord

The Ministère des Finances will define the standards for the use of funds drawn from the Fonds du Plan Nord.

- The standards will specify what the amounts drawn from the Fund may be used for, according to terms and conditions similar to a standard program in this regard.
- The Ministère des Finances will be authorized to require Fund users to supply the information necessary to determine whether the funding needs match the sums granted.
- The Ministère des Finances will also be authorized to demand a more detailed account of how the sums taken from the Fund are being used.

Statute establishing the Fonds du Plan Nord

The statute establishing the Fonds du Plan Nord will stipulate chiefly:

- the Fund's mission, in order to frame its activities;
- the Fund's revenue sources, i.e. the revenues of the Fonds du Plan Nord by source, budgetary appropriations and other revenues;
- the expenditures that may be made from the Fund;
- the authority to receive advances from the Minister of Finance, in the amounts and at the conditions determined by a government decree;
- the ability to borrow from the Fonds de financement of the Ministère des Finances;
- the defining of management procedures by the Conseil du trésor — such procedures providing the Fund's administrative framework.

The management procedures approved by the Conseil du trésor will mainly define:

- rules for the Fonds;
- reporting procedures, accounting principles and the accounting system;
- revenue and expenditure planning requirements;
- accountability and requirements regarding forecast and actual results;
- the information about the Fund that must be included in the annual management report of the Ministère des Finances.

Transfer expenditures paid out the Fonds du Plan Nord will be subject to government rules.

The Fund's results will be consolidated line by line with those of the government.

2. OPTIMIZING THE RETURN ON OUR NATURAL RESOURCES

2.1 Responsible natural gas production

☐ Developing shale gas potential

As announced in the 2009-2010 Budget, the government is modernizing its system of natural gas royalties so that all Quebecers obtain the most that they can from a resource they own collectively.

In pursuing the objective of developing Québec's oil and gas resources, the government will ensure that natural gas production is economically profitable, environment-friendly and safe for the public.

☐ Increased inspection of facilities in the shale gas industry

Development of the shale gas industry must be in keeping with the principles of sustainable development.

As the shale gas industry develops, the government must make sure that it increases its capacity to oversee and inspect gas company facilities.

Thus, the 2011-2012 Budget provides for an investment of $6 million over three years to step up efforts to inspect shale gas production facilities.

To that end, funding of $500 000 will be granted, respectively, to the Ministère du Développement durable, de l'Environnement et des Parcs and the Ministère des Ressources naturelles et de la Faune in 2011-2012. The funding will be drawn from the Contingency Fund.

☐ Strategic environmental assessment

The Ministère du Développement durable, de l'Environnement et des Parcs announced that he would request a strategic environmental assessment of shale gas development.

That is a practical approach aimed at acquiring field data and conducting experiments.

The government will therefore invest $7 million over three years to enable the Ministère du Développement durable, de l'Environnement et des Parcs to implement the measure.

To that end, additional funding of $2 million will be granted to the Ministère du Développement durable, de l'Environnement et des Parcs in 2011-2012. The funding will be drawn from the Contingency Fund.

■ Compensation for municipalities for quantifiable direct costs related to the shale gas industry

In response to concerns raised by municipalities regarding the additional expenses they might have to incur relative to shale gas exploration or development, the government is announcing that measures will be put in place to ensure that municipalities are fully compensated for such costs.

The government is therefore announcing that municipalities will be compensated for quantifiable additional costs they must incur as a result of shale gas exploration and development.

Since the industry is still in the exploration phase, the government is setting up a compensation program. During the development process, the government will establish the means by which compensation will be funded by the industry.

The 2011-2012 Budget therefore provides for an envelope of $2.5 million over three years to compensate municipalities.

To that end, funding of $500 000 will be granted to the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire in 2011-2012. The funding will be drawn from the Contingency Fund.

These measures as a whole are presented in detail in the 2011-2012 Budget paper *A Fair and Competitive Royalty System for Responsible Shale Gas Production*.

2.2 Taking advantage of growth in the mining sector

The mining industry will make a significant contribution to the vitality of the Québec economy in the years to come. The perceptible growth of the past few years in the mining sector will become stronger, which will support tens of thousands of jobs.

- For 2011, the intentions of the mining companies indicate that industry investments will reach a historic high of $2.9 billion.
- For the same year, mining shipment forecasts reached $7 billion, also a new record.

With the revision of the mining duties regime announced in the 2010-2011 Budget, the government ensured that Quebecers would receive fair compensation in return for the development of non-renewable mineral resources. The government's share of the revenues will enable public services to be funded in addition to benefiting future generations.

☐ A major revision of the mining duties regime

The principal objective of the revision of the mining duties regime is to increase returns for the government, while ensuring businesses are competitive.

Thus, the mining duties regime now applies on the basis of the "mine-by-mine" principle, making it possible to obtain royalties for each mine operated profitably, without the mining losses of one mine reducing the profits of another.

The various parameters of the regime were also reviewed in depth. Several deductions and incentives, such as the depreciation rate and the limits of the available deductions, were reduced. In addition, the mining duties rate applicable to profits, formerly 12%, was raised gradually, reaching 16% on January 1, 2012.

☐ Additional revenues for all Quebecers

The 2010-2011 Budget provided that the revision of the regime would substantially increase the mining duties collected by the government. It was anticipated that, for the years 2010-2011 to 2014-2015, the mining duties payable would total $570 million—a rise of almost 75% over the former regime.

In the past year, the economic outlook continued to improve. In addition to the price of metals, which should remain high, mineral shipments rose 21% between 2009 and 2010, reaching $6.8 billion, and should post an absolute record of $7 billion in 2011.

In this context, the increase in mining production value, combined with the effects of the changes to the mining duties regime, will mean additional revenues for Quebecers. Mining in Québec not only yields better returns, but Québec's share is larger than before.

— Thus, over a five-year period, revenues from mining duties are expected to reach $1.4 billion, more than double the amount anticipated in the revision of the regime.

TABLE E.5

Mining duties revenue forecast
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	Total
Before revision of the regime	52	61	68	68	79	**327**
Forecast in 2010-2011 Budget	84	100	124	128	134	**570**
Forecast in 2011-2012 Budget	133	281	305	369	312	**1 400**

Note: Figures have been rounded off, so they may not add up to the total indicated.

☐ A more profitable regime that is still competitive

In 2003, Natural Resources Canada conducted a comparative study of the tax competitiveness of mining companies in Canada.

— At that time, Québec tax levies on profits were much lower than the average in the rest of Canada for the operation of a typical mine.

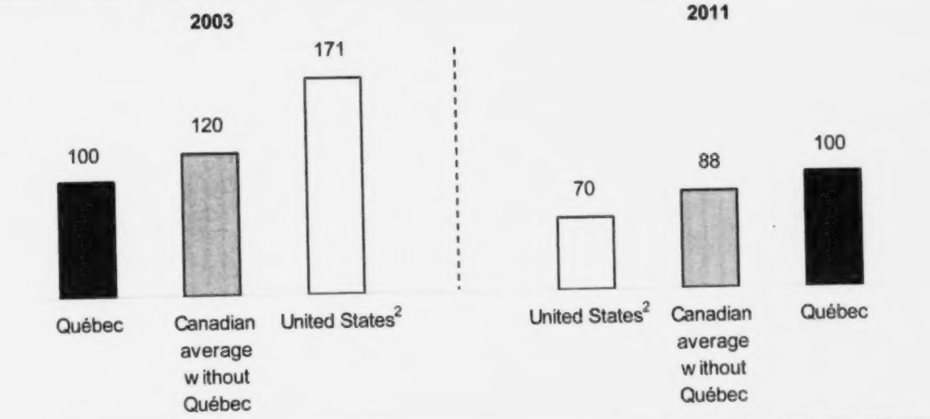
The 2011 tax competitiveness index for mining shows that the revision of the mining duties regime in Québec had a significant impact on the industry's tax burden.

— The update of the index confirms that Québec now collects higher tax levies on profits than anywhere else in Canada and the United States. Today, the tax burden over the life of a typical mine is 43% higher than in the United States and 13% higher than in the rest of Canada.

— Taking into account only mining royalties, minus the other taxes, Québec collects 28% more in mining duties than on average elsewhere in Canada.

CHART E.1

Tax competitiveness index for mining[1]
(Québec = 100)



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[1] The competitiveness index takes into account provincial income tax, federal income tax and the mining duties payable for a typical mining project.

[2] Average in Nevada and Alaska.

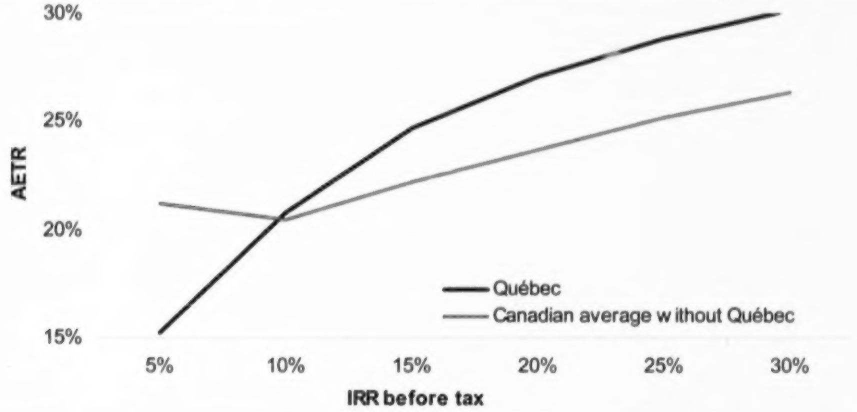
Source: Compiled by the Ministère des Finances du Québec based on Natural Resources Canada data.

In addition, Québec's share of mining revenues rises with project returns. The average effective tax rate in Québec increases substantially with the internal rate of return of a typical mining project.

In that regard, Québec has a more progressive tax structure than on average in the other Canadian provinces and territories. Thus, projects with high levels of return are more heavily taxed in Québec. For projects with internal rates of return in excess of 20%, the tax levies on the profits are almost 15% higher than the Canadian average excluding Québec.

CHART E.2

Average effective tax rate (AETR),[1] according to different internal rates of return (IRRs) for a mining company – Québec and Canadian average



[1] The average effective tax rate represents the weight of mining duties and corporate income tax, net of tax credits, over pre-tax operating profits discounted at 7.5%.

Source: Compiled by the Ministère des Finances du Québec based on Natural Resources Canada data.

Despite the substantial increases in revenues from mining duties, the investment and production intentions of the mining industry have never been higher. The vitality of the mining sector shows that Québec continues to be a prime investment destination.

Thus, Québec has attained its objectives by substantially raising the royalties payable by the mining industry, while offering a competitive business environment.

2.3 Promoting the forest sector

In Québec, the forest industry is a key sector, especially in the regions, because it employs close to 65 000 people, and accounts for 12.5% of Québec's international exports.

However, since 2005, the situation of the forest industry in Québec has been cause for concern. The industry has seen a decrease in its:

- employment level by 25%;
- production value by 32%;
- total exports by 37%.

In this context, the government intends to continue supporting the forest industry by:

- fostering the development of innovative initiatives for the use of wood in construction in Québec;
- enhancing the Silvicultural Investment Program;
- continuing to fund the production of seedlings.

Taken together, the 2011-2012 Budget measures in the forest sector will enable additional initiatives of $45.1 million in 2011-2012.

TABLE E.6

Measures to promote the forest sector
(millions of dollars)

	2011-2012
Creation of a working group to promote the use of wood in construction in Québec	0.5
Silvicultural Investment Program	19.0
Production of seedlings	25.6
TOTAL	**45.1**

☐ Creation of a working group to promote the use of wood in construction in Québec

Since the wood use strategy for construction in Québec was unveiled in 2008, the use of wood in non-residential construction frames has risen from 15% to 20%.

This progress shows that it is possible to make greater use of wood. However, more needs to be done to ensure the repositioning of our forest companies. To that end, all stakeholders must be mobilized to determine how to increase the use of wood in the non-residential construction sector.

To develop the use of wood as a building material, innovative initiatives must be implemented. To that end, the government is announcing the creation of a working group to promote the use of wood in construction in Québec.

The working group will be chaired by Léopold Beaulieu, Chief Executive Officer of Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi. In addition, various experts in the field, for example the Centre d'expertise sur la construction commerciale en bois (CECOBOIS), will collaborate in the group's work.

■ Mandate

The working group's mandate is as follows:

- ensure that the government fulfils its duty to set an example regarding the use of wood in its infrastructure;
- ensure that wood can be used under the construction standards in effect in Québec, while complying with the safety standards established by the Régie du bâtiment du Québec;
- take into account the sustainable development benefits of construction and emphasize the carbon footprint;
- give a larger place to wood in the school program of future building professionals, whether in technical or post-secondary programs.

The working group will submit a report to the Minister of Natural Resources and Wildlife by December 2011.

To that end, additional funding of $500 000 will be allocated to the Ministère des Ressources naturelles et de la Faune in 2011-2012. The funding will be drawn from the Contingency Fund.

Silvicultural Investment Program

The Silvicultural Investment Program was announced in the framework of the silvicultural investment strategy introduced with the tabling of the 2006-2007 Budget. The investments under the program make additional development possible, which contributes to increasing the yield of public and private forests.

The program enables silvicultural work to be carried out on sites with strong timber potential, harvested areas to be reforested, unsuccessfully regenerated areas to be returned to production and poor-quality stands to be rehabilitated.

To build on the efforts to improve Québec's forest resource, the 2011-2012 Budget provides for a one-year extension of the Silvicultural Investment Program.

Thus, effort will be devoted to silvicultural work, thereby promoting job creation in the regions in addition to consolidating the network of silvicultural businesses and nurseries.

To that end, additional funding of $19 million has been added to the expenditure budget of the Ministère des Ressources naturelles et de la Faune in 2011-2012.

Moreover, to maintain the level of silvicultural work funded through forest royalty revenues, the Minister of Natural Resources and Wildlife will soon submit the royalty rate applicable to timber harvested on public lands to an average of approximately $6.15 per cubic metre of timber for 2011-2012.

Production of seedlings

The objectives of funding seedling production are the reforestation and the regeneration of Québec forests. Seedling production is therefore an essential stage in the implementation of silvicultural initiatives.

Since January 1, 2007, the government has fully assumed the production of seedlings, due to the difficult economic context in the forestry sector, which is still affected by the repercussions of the financial crisis in the United States.

For 2011-2012, the government will continue to fund the totality of seedling production. To that end, additional funding of $25.6 million will be added to the expenditure budget of the Ministère des Ressources naturelles et de la Faune in 2011-2012.

3. INVESTING IN THE POTENTIAL OF QUEBECERS

3.1 Giving our youth a window on the world

3.1.1 School 2.0: connected classrooms

Currently, approximately 10% of Québec classrooms have the technologies necessary for interactive teaching. Buoyed by the success of this first stage of implementation, the government intends to make these technologies available to the 850 000 students who attend Québec's public elementary and secondary educational institutions.

— The technological tools foster learning, staying in school and school success, and the government has set itself the goal of raising the graduation rate of the under 20 age group to 80% by 2020.

Thus, the government intends to invest another $240 million in the coming years to:

— acquire smartboards, multimedia projectors and computers for classrooms in Québec's public schools, where the equipment will have a positive impact on learning;

— develop the required educational resources, such as e-textbooks and educational reference and assistance software for certain types of learning;

— ensure that teachers receive the training they need to take full advantage of the possibilities afforded by this new method of learning.

These investments will have economic benefits for Québec, for example for creators of multimedia content, developers, producers, disseminators and distributors, as well as for the development of specialized telecommunications networks and intranets for the education sector.

To that end, funding of $5.3 million in 2011-2012, $14.5 million in 2012-2013 and $27.8 million in 2013-2014 will be allocated to the Ministère de l'Éducation, du Loisir et du Sport. The funding for 2011-2012 will be drawn from the Contingency Fund.

3.1.2 Intensive English instruction

Learning English and acquiring a functional knowledge of the language are a must for young Quebecers and essential to their development. That is why Québec students currently receive 800 hours of English, second language instruction in most public schools.

But research shows that 1 200 hours are needed to reach an adequate level of understanding and expression in English.

To foster a functional knowledge of English among Québec students, the government will gradually support the addition of 400 hours of intensive English-language instruction in Grade 6. Half the school year will henceforward be devoted to learning English. This measure will affect more than 60 000 students a year.

— Intensive English instruction will require 1 200 English specialists within five years.

To that end, funding of $4.5 million in 2012-2013, $10.8 million in 2013-2014, $17.1 million in 2014-2015, $23.4 million in 2015-2016 and $25.3 million for subsequent years will be allocated to the Ministère de l'Éducation, du Loisir et du Sport.

3.1.3 A sports culture in secondary schools

School sports are an excellent way to encourage students to stay in school, in particular boys, and develop a strong sense of belonging at school.

— The development of a sports culture in schools is a key plank of the government's action strategy for encouraging students to stay in and succeed at school.

To promote that path as an option for more young people, the government is announcing that it will support at least one sports team in all public secondary schools in Québec. Over 12 000 students will be able to join the sports teams that will be created in the coming years.

To that end, funding of $3.5 million in 2011-2012, $4.5 million in 2012-2013, $5.0 million in 2013-2014 and $1 million for subsequent years will be allocated to the Ministère de l'Éducation, du Loisir et du Sport. The funding for 2011-2012 will be drawn from the Contingency Fund.

3.2 Better funding for our sports infrastructure

3.2.1 Increase in the envelope of the Sports and Physical Activity Development Fund

To encourage the development of sports and recreational facilities and support the organization of sporting events, the government set up the Sports and Physical Activity Development Fund almost five years ago.

☐ Sports and Physical Activity Development Fund

The Sports and Physical Activity Development Fund, which is funded through specific tax revenues from tobacco products is aimed, among other things, at supporting the construction, renovation, development and upgrading of sports and recreational facilities. The $325-million investment budget allocated to the fund since its creation in June 2006 has helped finance nearly 400 projects representing total investments of almost $800 million, including the contribution of partners.

In the 2010-2011 Budget, additional funding of $209 million was allocated to the fund in order to finance the replacement of freon refrigeration systems in arenas.

☐ Increase in the envelope of the Sports and Physical Activity Development Fund

The government wishes to allocate additional resources to the construction, restoration and development of sports and recreational facilities. With this in mind, an additional envelope of $50 million, which may be authorized as of 2011-2012, will be allocated to the Sports and Physical Activity Development Fund in order to finance additional projects such as soccer fields, pools, sports centres and multisport facilities.

To finance the new measure, the amount drawn annually from specific tax revenues from tobacco products will be increased by $3 million as of 2011-2012 and the period for drawing the amount will be extended to 2023-2024, in order to enable the fund to meet all of its commitments.

TABLE E.7

Sports and Physical Activity Development Fund

	Project envelope ($M)	Annual amounts drawn from specific tax revenues from tobacco products ($M)	Last drawings
Current situation	534	49	2022-2023
New measure	50	3	2023-2024
TOTAL	**584**	**52**	—

3.3 Giving universities the means to achieve excellence

3.3.1 A fair and balanced university funding plan

The government is tabling a six-year university funding plan, for the 2011-2017 period.

— Québec universities will have at their disposal $850 million a year in additional revenue in 2016-2017.

— A little over half of the additional revenue, $430 million, will come from the government.

— Students will pay their fair share of the plan. Tuition fees will be increased by $325 a year as of fall 2012, until 2016-2017. These increases will bring tuition fees to 1968 levels, taking inflation into account.

— Students' university education remains financially accessible to them. In particular, all bursary students[1] who are beneficiaries of the Loans and Bursaries Program will be fully compensated for the increase in tuition fees. The additional assistance for students will represent 35% of tuition fee increases.

— Universities are invited to seek more donations from individuals and businesses. The government will match the new donations.

— Through partnership agreements with the universities, the government has ensured that the additional resources will serve to improve the quality of instruction and research, which will directly benefit students.

All of these measures are presented in detail in the 2011-2012 Budget paper *A Fair and Balanced University Funding Plan*.

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[1] Students who would have received a bursary based on the current level of tuition fees.

TABLE E.8

Québec University Funding Plan – Additional revenue
(millions of dollars, impact in university years)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Québec government	74	117	149	263	357	430
Students	41	90	145	193	231	265
Other sources of revenue for universities	24	45	66	81	92	101
Donations from individuals and businesses	9	18	27	35	44	54
TOTAL ADDITIONAL REVENUE	**148**	**270**	**386**	**572**	**724**	**850**

Note: Figures have been rounded off, so they may not add up to the total indicated.

3.3.2 Increased support for students through the student financial assistance program

In the coming years, investments will be necessary to develop the excellence of Québec universities and enable them to continue to provide a quality education. The government will be solicited and will ask students to make an additional effort by contributing more to the financing of their studies.

In this context, the government is ensuring the same financial accessibility to university studies as now for bursary students[2] who are beneficiaries of the Loans and Bursaries Program. Thus:

— these students will be fully compensated through an additional bursary that completely offsets the increase in tuition fees;

— recipients of the maximum student loan[3] will see their current special allowance raised by an amount equal to the increase in tuition fees.

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[2] See note 1, page E.48.

[3] Includes students who received the first instalment of the loan.

☐ $118 million in initiatives

The additional support for students who are beneficiaries of the student financial assistance program will total $118 million a year when fully implemented.

The amounts will be invested in five measures adjusting the Loans and Bursaries Program:

- maintenance of the student loan ceilings, which will enable an additional bursary fully offsetting the increase in tuition fees to be awarded to current bursary students,[4] thereby ensuring that they do not go further into debt;
- increase in the special allowance granted since 2007-2008, in order to fully offset the increase in tuition fees for non-bursary students who receive the maximum student loan[5];
- gradual reduction in the contribution a student's parents and spouse are asked to pay, in response to a long-standing demand from student federations;
- addition of a transportation expense for students in the regions who are beneficiaries of the Loans Program for Part-Time Studies, in order to recognize their higher travel expenses;
- enhancement of the Deferred Payment Plan in order to enable more former students to finish paying back their student loan in a reasonable amount of time.

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[4] See note 1, page E.48.

[5] See note 3, page E.49.

TABLE E.9

Additional support for students under the student financial assistance program – 2012-2013 to 2016-2017
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Fully implemented
Maintenance of maximum loan amounts	10.8	26.9	43.6	61.1	79.3	85.8
Increase in the special allowance	0.7	2.0	3.2	3.5	3.6	3.7
Reduction in the parental and spousal contribution	5.6	9.6	16.0	22.0	26.0	26.6
Transportation expense for part-time students who pursue studies in the regions	0.1	0.1	0.1	0.1	0.1	0.1
Improvement of the Deferred Payment Plan	—	2.2	2.2	2.2	2.2	2.2
INCREASE IN FINANCIAL ASSISTANCE FOR STUDENTS	**17.1**	**40.8**	**65.1**	**88.9**	**111.2**	**118.4**

Note: Figures have been rounded off, so they may not add up to the total indicated.
Source: Ministère de l'Éducation du Loisir et du Sport.

To finance these initiatives, additional funding of $17.1 million in 2012-2013, $40.8 million in 2013-2014, $65.1 million in 2014-2015, $88.9 million in 2015-2016 and $111.2 million in 2016-2017 will be returned to students under the student financial assistance program. The funding will be drawn from the additional income derived from the increase in tuition fees.

3.3.3 Recognizing the uniqueness and essentialness of the Centre hospitalier universitaire vétérinaire

The Centre hospitalier universitaire vétérinaire (CHUV), located in Saint-Hyacinthe, has a triple mandate of teaching, research and services to the community. It employs top-level scientific and technical staff, and has a special infrastructure making it a flagship of the country's agrifood sector.

This unique medical complex provides ongoing services, 24 hours a day, 365 days a year for farm animals as well as for horses and pets.

A major research centre, it is the only one in Québec that brings together multidisciplinary teams of researchers whose work advances knowledge in the veterinary field and improves animal diagnoses and care.

Its clinical teaching mission at the undergraduate and graduate levels demands clinical professors who stay abreast of the most recent developments in their disciplines.

The CHUV plays a crucial role in training professionals in public health and crisis management, and in working on the interplay between humans, animals and the environment.

To better recognize the CHUV's essentialness to Québec and its contribution to animal health, the centre will receive $2.8 million in 2011-2012 and $3.5 million for subsequent years from the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation. The funding for 2011-2012 will be drawn from the Contingency Fund.

These investments will enable the CHUV to absorb its $2.9-million operating deficit and complete its upgrade of vocational instruction ($0.6 million), while supporting Québec's animal health sector as a whole.

3.4 Capitalizing on the skills of experienced workers

Québec is on the cusp of profound demographic change. In 2011, the first baby-boomers will reach 65 years of age. This first cohort will be followed by an unprecedented wave of people turning 65 in the years to come.

This rapid aging of the population will be compounded by a decrease in the number of working-age people after 2013. This shrinking of the available labour pool represents a major economic challenge.

To tackle it, Québec already relies on one of the world's most generous family support policies. In addition to continuing its efforts, the government must capitalize on the skills of experienced workers by encouraging people 65 or over to extend their working life. These workers are a collective wealth we cannot afford to do without on the eve of the changes to come.

3.4.1 A demographic challenge that calls for action

The anticipated aging of the Québec population will have a significant impact on the economy and public finances. In addition to putting more pressure on spending, particularly in the area of health and social services, the increase in the number of people 65 and over will be compounded by the shrinking of the available labour pool, which will not be without consequences for economic growth.

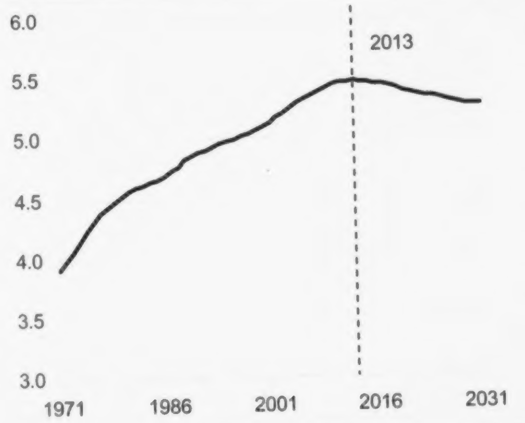
The most recent demographic data are telling.

- Over the next 30 years, the proportion of people 65 or over will double, attaining 25% of the population, a rate of aging more rapid than almost anywhere else in the world.
- After 2013, and for the first time in the history of Québec, the working-age population will begin to decline. By 2030, the number of people aged 15 to 64 will drop by 3.8% in Québec.
  - By comparison, this same group of people will grow 5.5% in size in Canada, 9.6% in Ontario and 4.6% in the United States.
  - This comparison with our principal trading partners shows just how big and singular a challenge Québec is faced with.

CHART E.3

Population aged 15 to 64

(millions of people)

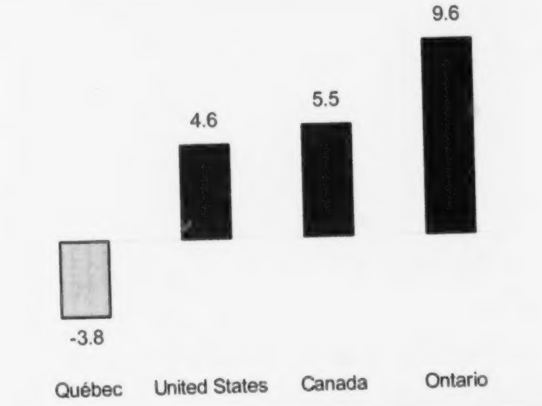


Source: Institut de la statistique du Québec (2009).

CHART E.4

Change in the population aged 15 to 64 – 2013 to 2030

(percent)



Sources: Institut de la statistique du Québec, U.S. Census Bureau, Statistics Canada and Ontario Ministry of Finance.

☐ A shrinking of the labour pool that demands action

The decrease in the number of people of working age will shrink the pool of available workers. Fewer workers means less economic growth and, consequently, less wealth. The slowing of collective wealth creation is not without posing major challenges, in particular with regard to the funding of our public services and, therefore, the maintenance of our standard of living.

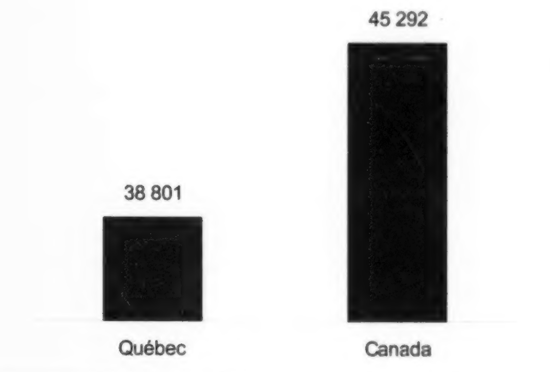
This shrinking of the labour pool is at our door. Economically, it is already reflected in the greater rarity, even shortage, of workers observed in certain sectors of activity and certain regions of Québec.

To mitigate the consequences and thereby contribute to maintaining a level of economic growth in keeping with our collective wealth objectives, the government must step up its efforts to encourage more people to enter the labour market and keep working as long as possible.

— A comparison of anticipated economic growth in Québec and Canada in the coming years shows the extent to which greater labour market participation is crucial to maintaining a standard of living similar to that in the other provinces.

CHART E.5

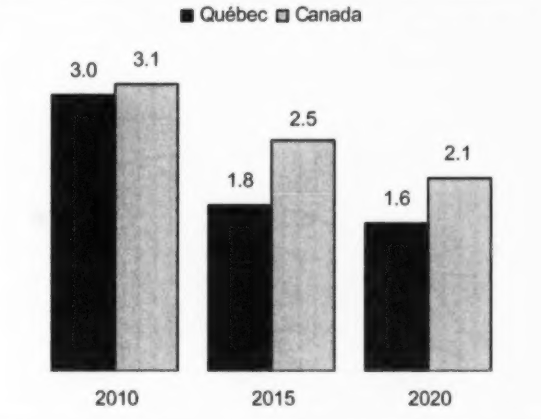
Nominal GDP per capita - 2009
(dollars)



Source: Statistics Canada.

CHART E.6

Projected real GDP growth in Québec and Canada - 2010 to 2020
(percent)



Sources: Global Insight, Statistics Canada and Ministère des Finances du Québec.

☐ Experienced workers: a source of wealth we cannot do without

Currently, experienced workers retire from the labour force much earlier in Québec than in the case of our principal trading partners.

— The average retirement age in Québec is 61 for women and 62 for men, one and two years younger respectively than in Canada and three years younger than in the United States.

— The labour force participation rate of Quebecers 65 or over is 8.7%, three percentage points lower than that of Canadians (11.4%) and two times lower than that of Americans (17.4%).

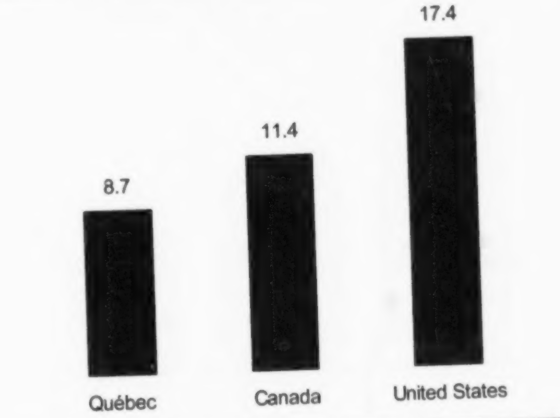
In this context, the government must take additional action to encourage experienced workers who have the desire and ability to hold a job to stay in the labour market.

In that regard, the Commission nationale sur la participation au marché du travail des travailleuses et travailleurs expérimentés de 55 ans ou plus, chaired by Gilles Demers, was set up further to the 2010-2011 Budget. The commission, whose mandate is to make recommendations on the appropriate means to induce more workers to remain in the labour force, will table its report this year.

In parallel to the commission's work, the government recognizes the necessity of taking action now to send a clear message encouraging experienced workers to stay in the labour market longer.

CHART E.7

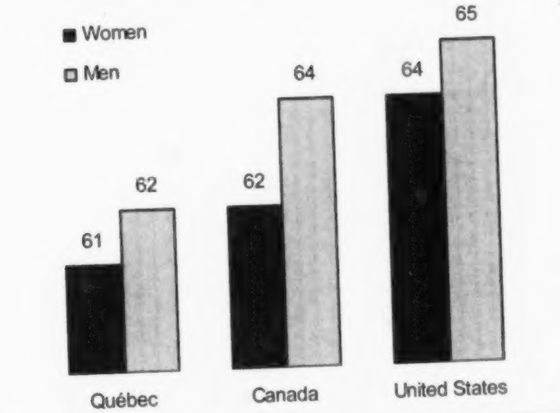
Participation rate of people 65 or over – 2010
(en pourcentage)



Sources: Statistics Canada and U.S. Census Bureau.

CHART E.8

Average retirement age, by gender – 2007



Sources: Régie des rentes du Québec and OECD.

3.4.2 Introduction of a tax credit on work income of $10 000 for experienced workers

The 2011-2012 Budget provides for the gradual implementation of a tax credit for experienced workers as of January 1, 2012.

The new tax credit is intended to offset the Québec income tax payable on the $10 000 of work income exceeding the first $5 000, for people 65 or over.

— The income tax payable will be offset by the tax credit at the lowest rate of the tax table, that is, 16%.

☐ More than 100 000 experienced workers will benefit

The introduction of the tax credit will reward the work effort of more than 100 000 workers, who will obtain an average tax gain of $1 167.

TABLE E.10

Average gain attributable to the tax credit, per total income of an experienced worker – Fully implemented

Total income of an experienced worker	Number of workers targeted	Average gain ($/worker)
Under $25 000	4 000	373
$25 000 to $50 000	41 000	1 021
$50 000 to $75 000	25 000	1 248
$75 000 to $100 000	13 000	1 354
$100 000 and over	20 000	1 419
TOTAL	**103 000**	**1 167**

Application details of the tax credit for experienced workers

Eligibility

The tax credit is for people 65 or over with at least $5 000 of eligible work income.

- If a worker turns 65 in the year, only the work income earned as of the time he or she reaches age 65 will give entitlement to the tax credit.

The tax credit covers employees and self-employed workers. The main work income taken into account is employment and business income.

- In general, the definition of eligible work income currently used to calculate the deduction for workers will be applied to the new tax credit.

Maximum tax credit

The amount of the non-refundable tax credit will be equal to 16% of each dollar of work income in excess of $5 000, up to $10 000 of work income.

The tax credit will take into account the deduction already available to workers, namely, the deduction of 6% of work income (maximum $1 045 in 2011).

When fully implemented, the maximum tax credit will be $1 504.

Maximum tax credit = 16% x $10 000 x (1 – 0.06)

Application

The tax credit will be granted against the income tax payable of an eligible worker. The unused portion may not be carried forward or transferred to the worker's spouse.

Eligible workers may receive the tax credit in advance by requesting a reduction of their source deductions.

A tax credit rather than a deduction

A tax credit achieves the same objective as a deduction without affecting the rest of the personal income tax system.

For example, a work income deduction could entitle certain people to the solidarity tax credit, even though their income is too high for them to currently have access to the tax credit. That situation would raise a question of fairness, not only between low-income and better-off households, but also between workers and annuitants who do not have work income.

- At the same income, an experienced worker could be entitled to the solidarity tax credit, whereas an annuitant would not be.
- At a given level of income, an experienced worker could be exempt from paying a contribution to the Québec prescription drug insurance plan, whereas an annuitant would have to pay a contribution.

❑ Elderly person living alone

The income tax payable on work income by an elderly person living alone is $752, at a total income of $30 000.

- With the introduction of the new tax credit, the income tax payable on the additional work income gain of $10 000 will be offset so that the income tax payable remains unchanged at $752.
- An experienced worker with a work income of $15 000 will see the income tax payable on the work income fall from $2 256 to $752, for a gain of $1 504. Thus, as of that income, the full value of the tax credit will be reached when fully implemented, in 2016.

TABLE E.11

Change in income tax for a person 67 years of age who lives alone[1] – Fully implemented

(dollars)

			Income tax on work income only[3]		
Work income	**Total income**	**Income tax payable[2]**	**Before 2011-2012 Budget**	**After 2011-2012 Budget**	**Gain**
5 000	**30 000**	**1 140**	**752**	**752**	—
10 000	35 000	1 892	1 504	752	752
15 000	**40 000**	**2 785**	**2 256**	**752**	**1 504**
20 000	45 000	3 697	3 014	1 510	1 504
30 000	55 000	5 997	4 614	3 110	1 504
40 000	65 000	8 297	6 214	4 710	1 504
50 000	74 532	10 489	8 026	6 522	1 504

[1] Experienced worker with retirement income of $18 035 (QPP, RRSP or RPP benefits) and an Old Age Security pension of $6 965.

[2] Income tax payable on all income.

[3] Income tax on the work income, taking into account the applicable tax credits.

☐ Elderly couple

The income tax payable on work income by an elderly couple is $1 504, at a total income of $60 000.

- The introduction of the new tax credit will enable each of the people in the couple to earn an extra $10 000 in work income with no income tax payable on the gain. The income tax payable will remain unchanged at $1 504.
- For a couple with a work income of $30 000, the income tax payable on the work income will fall from $4 512 to $1 504, for a gain of $3 008. Thus, as of that income, the full value of the tax credit will be reached when fully implemented, in 2016.

TABLE E.12

Change in income tax for a couple 67 years of age[1] – Fully implemented
(dollars)

			Income tax on work income only[3]		
Work income	**Total income**	**Income tax payable[2]**	**Before 2011-2012 Budget**	**After 2011-2012 Budget**	**Gain**
5 000	55 000	2 381	752	752	—
10 000	**60 000**	**3 133**	**1 504**	**1 504**	—
15 000	65 000	3 885	2 256	1 504	752
20 000	70 000	4 637	3 008	1 504	1 504
25 000	75 000	5 389	3 760	1 504	2 256
30 000	**80 000**	**6 141**	**4 512**	**1 504**	**3 008**
40 000	90 000	7 669	6 027	3 019	3 008
50 000	100 000	9 469	7 627	4 619	3 008

Note: Each spouse receives 50% work income and retirement income.

[1] Couple of experienced workers with two retirement incomes totalling $36 070 (QPP, RRSP or RPP benefits), an Old Age Security pension of $13 930 and two work incomes.

[2] Income tax payable on all income.

[3] Income tax on the work income, taking into account the applicable tax credits.

☐ Advantageous tax credit for workers

The new tax credit represents a significant benefit for experienced workers, who will obtain a substantial gain in hourly remuneration beyond a minimum work effort.

■ An hourly remuneration increase of more than 20%

With the tax credit, experienced workers will obtain an increase in their hourly remuneration of more than 20% on the $10 000 of work income in excess of $5 000.

— For example, an experienced worker's hourly gain after income tax and contributions, at a salary of $15 an hour, will rise from $9.87 to $12.12–an increase of $2.25 or 22.8%.

TABLE E.13

Hourly gain increase for a person 67 years of age who lives alone, with an additional work effort of $10 000[1] – Fully implemented
(dollars)

	Before 2011-2012 Budget	After 2011-2012 Budget	Gain
Increase in work income	+ 10 000	+ 10 000	—
Additional federal income tax	– 1 228	– 1 228	—
Additional Québec income tax	– 1 504	—	+ 1 504
Additional contributions	– 690	– 690	—
Increase in disposable income	**+ 6 578**	**+ 8 082**	**+ 1 504**
Hourly gain at $15 an hour[2]	**+ 9.87**	**+ 12.12**	**+ 2.25**
- Growth	—	—	**+ 22.8%**

[1] Experienced worker with a retirement income of $13 035 (QPP, RRSP or RPP benefits), an Old Age Security pension of $6 965 and an increase in work income from $5 000 to $15 000.

[2] Hourly gain after income tax and contributions for a senior who works approximately an extra 13 hours a week at $15 an hour.

☐ A measure consistent with the reality of the labour market

By exempting from income tax the first $10 000 above $5 000 of work income, the tax credit targets a work effort that is more consistent with the expectations of both workers and employers.

Considering that an annual work income of $5 000 represents a little under one day of work a week at a salary of $15 an hour, experienced workers can generally take full advantage of the tax credit if their work effort is two or three days a week. By encouraging that amount of work, the tax credit is designed to better meet the needs of:

- experienced workers, who often want to remain in the labour market without the constraint of having to work full time;
- employers, because they can meet all their labour needs with fewer workers, thereby facilitating the management of work schedules and reducing their training costs.

☐ Gradual implementation as of 2012

The new tax credit will be implemented gradually as of 2012. Gradual implementation is in line with the government's financial commitments, which provide for a return to balanced budgets as of 2013-2014.

Despite the budget deficit, the government is aware of the need to take action now to palliate the decline in the working-age population that will start after 2013. That is why the tax credit for experienced workers will apply gradually as of 2012.

Thus, after the first $5 000, the tax credit will enable the total elimination of Québec income tax on additional work income of:

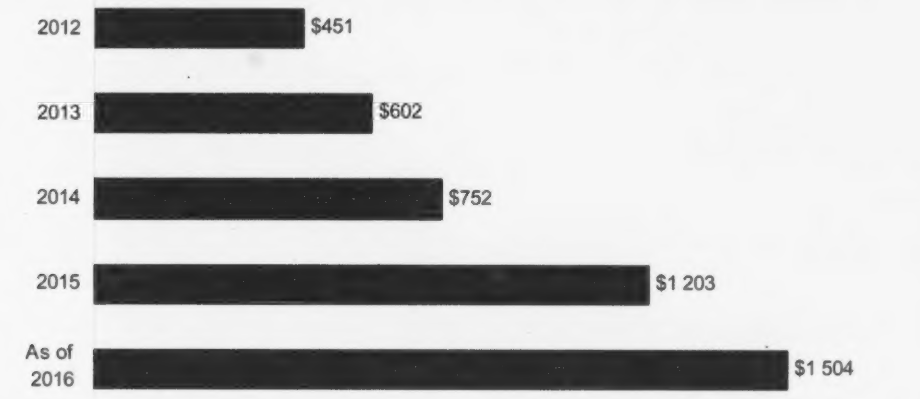
- $3 000 in 2012;
- $4 000 in 2013;
- $5 000 in 2014;
- $8 000 in 2015;
- $10 000 as of 2016.

The tax gain for the worker will therefore increase year after year up to 2016.

— Starting from $451 in 2012, the maximum tax credit will reach $1 504 as of 2016.

CHART E.9

Maximum tax credit by taxation year



☐ $120-million gain for experienced workers

The cost of the tax credit will reach $120 million in 2016, the year in which the full value of the tax credit will be attained.

TABLE E.14

Tax credit for experienced workers: financial impact
(millions of dollars)

	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Tax credit for experienced workers	– 35	– 50	– 60	– 95	– 120

3.5 Taking action now to ensure adequate retirement income for every generation

Quebecers have one of the top-performing retirement income systems in the world. Its diversified structure is a model often cited as an example. Under the system, most Québec retirees:

- receive a retirement income that keeps them out of poverty;
- maintain a standard of living similar to what they had before leaving the labour market.

Despite its strengths, the Québec retirement income system will be faced with challenges, population aging chief among them, in the years to come.

- The rapid rise in the number of people 65 or over, combined with a longer life expectancy, will put considerable financial strain on retirement plans.
- That financial burden will be compounded by a drop in the number of people of working age who will be contributing to retirement plans.

To meet that challenge, action must be taken now to:

- ensure the stability of the Québec Pension Plan's financial situation so that today's retirees and those of tomorrow can count on stable, foreseeable basic incomes when they retire;
- further encourage voluntary savings so that workers who do not have access to a pension plan through their employer can be assured of having enough income to maintain their standard of living when they retire.

The Québec government intends to make changes to Québec's retirement income system in that regard. These changes will be made gradually to minimize the impact on workers and businesses. That is the context in which the 2011-2012 Budget provides for:

- adjustments to be made to the Québec Pension Plan as of 2012, in order to guarantee Quebecers a basic income on retirement;
- the Québec government to put in place new voluntary retirement savings plans to encourage all Quebecers to save.

These measures as a whole are presented in detail in the 2011-2012 Budget paper A Stronger Retirement Income System: Meeting the Expectations of Quebecers of Every Generation.

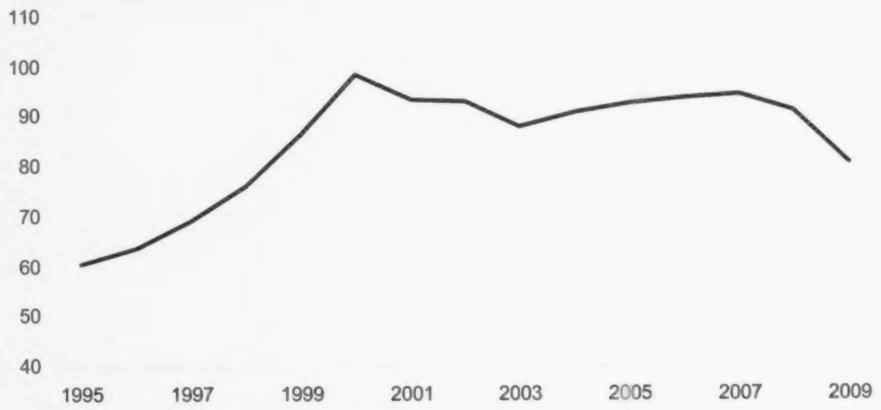
SEIZING THE OPPORTUNITIES

4. DEVELOP AND DIVERSIFY EXPORT MARKETS

In 2009, Québec's international exports fell to their lowest level since 1999 and have been slow to bounce back despite the global economic recovery. Many factors have contributed to slowing export growth in recent years, in particular the economic slowdown in the United States and the appreciation of the Canadian dollar in relation to the U.S. dollar.

CHART E.10

Québec's international exports of goods and services
(billions of constant 2002 dollars)



Source: Institut de la statistique du Québec.

In addition, the geopolitical crisis in certain North African and Middle Eastern countries points to a sustained rise in oil prices, which could further strengthen the Canadian dollar and undermine exports.

In this context, Québec must firm up its position on its traditional export markets and improve its positioning on new markets, especially in emerging countries, where domestic demand is growing strongly, notably in China, India, Russia and Brazil.

Moreover, in a fast-changing global trade environment, the internationalization of companies is accelerating and tending towards greater complexity. To become more active on export markets, companies have to employ increasingly sophisticated strategies concerning their commercial operations, investment practices and contractual arrangements with foreign companies.

Québec companies, especially SMEs, must be better able to become part of globalizing value chains to benefit from new business opportunities. To do so, they need be able to count on, among other things, efficient and simple government support that is adapted to their needs.

Accordingly, to stimulate exports, develop new markets and better support Québec companies as they internationalize, the 2011-2012 Budget stipulates:

— the creation of Exportation Québec, a unit dedicated to supporting exports;

— the introduction of the Export Program;

— additional funding to consolidate Québec's network of offices in emerging countries.

Accordingly, additional funding of $45.5 million over three years is stipulated to develop and diversify export markets.

TABLE E.15

Measures to develop and diversify export markets
(millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
Creation of Exportation Québec	—	—	—	—
Introduction of the Export Program	10.0	15.0	15.0	**40.0**
Consolidate Québec's network of offices in emerging countries	1.1	2.2	2.2	**5.5**
TOTAL	**11.1**	**17.2**	**17.2**	**45.5**

These measures are in addition to a commitment envelope of $50 million over three years allocated to Investissement Québec in the 2010-2011 Budget to improve the capitalization of exporting SMEs. This funding, administered by the Fonds du développement économique, will make it possible to offer quasi-equity, in particular consisting of convertible debentures that can be repaid over ten years.

The details of Exportation Québec and the Export Program will be presented by the Minister of Economic Development, Innovation and Export Trade. The Minister of International Relations will specify the details of the initiatives taken to consolidate Québec's network of offices abroad.

4.1 Creation of Exportation Québec

The 2011-2012 Budget stipulates the implementation of Exportation Québec, a unit dedicated to supporting exports. Exportation Québec will come under the authority of the Ministère du Développement économique, de l'Innovation et de l'Exportation (MDEIE).

It will consolidate the MDEIE's service offering relating to exports to facilitate access to government assistance and promote Québec abroad.

Exportation Québec will have four main missions.

- Implement bespoke consulting services to assist businesses with their export strategy. Services offered include:
  - validation of foreign demand and markets to establish an export strategy;
  - twinning i.e. identification of future partners or clientele targeting in order to sell on the market in question;
  - establishing the business abroad, in particular with the international network of incubators;
  - identifying, with Investissement Québec's assistance, financing solutions and support in preparing the financing file.
- Develop an exporter support network abroad to which a team of Exportation Québec consultants will be attached to support exporters in commercializing and selling their products or establishing their business on foreign markets.
- Consolidate partnership and cooperation initiatives (Manufacturiers exportateurs du Québec, World Trade Centers, Orpex, Investissement Québec, etc.), by formulating a common market development strategy, implementing an offering of complementary services and assisting companies abroad.
- Promote Québec and its exporters abroad and the opportunities provided by exports among Québec entrepreneurs.

Exportation Québec will adopt an integrated approach based on close cooperation with its partners. In addition, an advisory committee consisting of exporting companies will be formed to guide Exportation Québec in its choices.

4.2 Introduction of the Export Program

The 2011-2012 Budget also stipulates the introduction of an exports program that will bring together all the export assistance measures currently offered by the MDEIE, while enhancing the existing service offering.

The new exports program will have three complementary components:

- component 1: support for exporters (e.g. business plans, market studies, marketing, assistance, standards, customs compliance, training, promotional showcases);
- component 2: support for organizations that support exporters;
- component 3: development of an international network of incubators, particularly in emerging countries.

To that end, additional funding of $40.0 million over three years will be allocated to the Ministère du Développement économique, de l'Innovation et de l'Exportation for the Export Program, including $29.5 million to enhance support for exporters. The funding for 2011-2012 will be drawn from the Contingency Fund.

TABLE E.16

Additional support to implement the Export Program
(millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
Component 1: enhanced support for exporters	6.5	11.5	11.5	**29.5**
Component 2: enhanced support for organizations that support exporters	1.0	1.0	1.0	**3.0**
Component 3: development of an international network of incubators	2.5	2.5	2.5	**7.5**
TOTAL	**10.0**	**15.0**	**15.0**	**40.0**

Including the existing assistance of $11.7 million, total support for exports will amount to $21.7 million in 2011-2012 and $26.7 million in subsequent years.

TABLE E.17

Amount of assistance allocated to MDEIE Export Program
Before and after the measures of the 2011-2012 Budget
(millions of dollars)

			Additional support			Total assistance		
		2010-2011	**2011-2012**	**2012-2013**	**2013-2014**	**2011-2012**	**2012-2013**	**2013-2014**
Component 1:	support for exporters	8.0	6.5	11.5	11.5	14.5	19.5	19.5
Component 2:	support for organizations that support exporters	3.7	1.0	1.0	1.0	4.7	4.7	4.7
Component 3:	development of an international network of incubators	—	2.5	2.5	2.5	2.5	2.5	2.5
TOTAL		**11.7**	**10.0**	**15.0**	**15.0**	**21.7**	**26.7**	**26.7**

4.2.1 Enhanced support for exporters

Currently, MDEIE export assistance is granted under the Programme d'aide aux entreprises (business assistance program) and the Programme de soutien aux partenariats et aux filières industrielles (support program for partnerships and industrial networks). These programs are no longer adapted to the existing context of support for the internationalization of companies.

Under these circumstances, these export assistance programs will be grouped under the Export Program and their parameters will be updated. In addition, the amount of assistance to exporting companies will be increased by $6.5 million in 2011-2012, raising the amount of assistance from $8.0 million to $14.5 million. In subsequent years, assistance to exporting companies will amount to $19.5 million.

The reorganization and enhancement of support for exporters will make it easier for entrepreneurs and organizations supporting exporters to gain access to the various forms of export assistance, and the procedures to obtain assistance will be simplified. In addition, it will be possible to adapt assistance to sectors of economic activity and promising geographic markets based on the actual nature of the costs and risks of the target market, which will boost efficiency.

4.2.2 Enhanced support for organizations that support exporters

In Québec many organizations offer export support services (for instance, assistance, prospecting for partners and networking) and they have developed specific expertise in this field, especially in traditional export markets, which still today account for a significant share of global GDP.

To allocate export assistance resources more efficiently and reduce duplication of services, Exportation Québec will concentrate most of its activity in emerging and promising markets to develop and diversify these export markets. In addition, Exportation Québec will place more reliance on the expertise and resources of its associated and regional partners to maintain and develop the service offering on traditional markets.

Accordingly, additional funding of $1 million per year will be provided to improve support to organizations supporting exporters to enable partners to more effectively assist companies in their export initiatives on traditional markets.

4.2.3 Deployment of an international network of incubators

Establishing a company in a foreign country requires good local knowledge and represents a significant commitment in time and money. Innovative initiatives, like the one proposed by Entreprise Rhône-Alpes International (ERAI), help ease the difficulties exporting companies encounter by supplying a variety of services, such as prospecting for partners, promotion and assistance for companies and support for business location in new markets.

Entreprise Rhône-Alpes International and the Implantis^R network

Entreprise Rhônes-Alpes International (ERAI) was created in 1987 at the initiative of the Conseil régional Rhône-Alpes to promote economic development abroad and bolster the appeal of the Rhône-Alpes region.

Over the years, ERAI has developed solid expertise in market development and assistance in establishing businesses.

Among other services, ERAI offers the Implantis^R service, which offers companies that want to establish themselves in a foreign country the possibility of stationing one of their employees in an ERAI reception office (incubator).

This service enables companies to:

- export securely and at lower cost;
- benefit, on the spot, from the experience, network and professional assistance of ERAI consultants.

ERAI offers its services in 22 countries: Algeria, Germany, Argentina, Brazil, China, the United Arab Emirates, Spain, the United States, France, India, Italy, Japan, Morocco, Mexico, Poland, Romania, Russia, Singapore, Tunisia, Turkey, Ukraine and Vietnam.

Working with ERAI, the MDEIE plans to make the extensive Implantis^R international network of incubators available to Québec's exporting companies. In addition, the two organizations will work together to expand the network to new markets.

Accordingly, the network will be developed in two ways:

- First, Québec companies will be guaranteed places in ERAI's existing Implantis^R network of incubators.
- Second, within the next five years, the MDEIE will double the number of incubation spaces in the network from 140 to 280:
  - by developing new incubators in other high-potential markets like South Africa, Indonesia and Chile;
  - by increasing the number of office spaces available in countries where demand is stronger, such as China and India.

The MDEIE will be allocated funding of $2.5 million per year to develop the international network of incubators. Québec companies will thus benefit from one of the most extensive networks of incubators in the world to facilitate their expansion on foreign markets and more particularly in emerging countries.

4.3 Consolidate Québec's network of offices in emerging countries

For many years, Québec has maintained a sustained international presence to promote its talents, skills and products and services. Québec, through the Ministère des Relations internationales (MRI), has established significant political, economic and cultural relations in many countries.

Through its extensive network of foreign offices, the MRI offers Québec businesses, creators, researchers and institutions services and advice adapted to the features of the countries in which its offices are located. Québec's representatives abroad thus play a key role in Québec's international action.

In view of the growing importance of emerging countries in international trade, Québec must be able to forge close links with these countries.

To that end, additional funding of $1.1 million in 2011-2012 and $2.2 million in 2012-2013 and 2013-2014 will be provided to enable the MRI to increase Québec's presence in emerging countries.

These funds will be used to open a new Québec office in Russia and to consolidate Québec's offices in China, India and Brazil by adding economic advisors or commercial attachés to the existing teams in those countries.

These initiatives will in particular help companies that want to export to benefit fully from the business opportunities these markets offer.

The funding for 2011-2012 will be drawn from the Contingency Fund.

☐ An improved and varied service offering

The implementation of Exportation Québec and the Export Program as well as the consolidation of Québec's network of offices abroad will improve the consistency of government action regarding exports and favour synergy among the various fields of expertise of stakeholders and partners, in addition to reducing overlapping of responsibilities.

Thanks to all of the announced measures, Québec's exporting companies will enjoy a diversified service offering that meets their needs more efficiently.

5. ENCOURAGE ENTREPRENEURSHIP AND BUSINESS SUCCESSION

Government support for entrepreneurship is crucial because new companies create jobs, encourage innovation, stimulate exports and thus contribute to wealth generation in Québec. The transfer of businesses helps keep well-established businesses in Québec and quite often ensures that entrepreneurial values are passed on from generation to generation.

Participants at the Rencontre économique 2010 were aware of this situation and agreed on the importance of developing an entrepreneurial culture in Québec because by embracing all of the values specific to entrepreneurship, such as independence, creativity and innovation, Québec will be able to stimulate the emergence of new businesses and set itself apart from international competition.

Accordingly, a notable initiative was taken in this context with entrepreneurship as the theme. Last fall, the Minister of Economic Development, Innovation and Export Trade, Clément Gignac, undertook an extensive consultation tour of every region of Québec. This consultation, to which organizations supporting entrepreneurship and business people were invited, ended on March 1, 2011 with a day of discussion and brainstorming on entrepreneurship.

The Minister of Economic Development, Innovation and Export Trade intends to follow-up on these consultations by formulating a pro-entrepreneurship strategy whose objective will be to strengthen the entire entrepreneurial chain.

Creating new businesses, bolstering the culture of entrepreneurship and preparing the next generation of entrepreneurs are significant issues the strategy will address, since Québec faces many pitfalls in these fields.

☐ Business creation

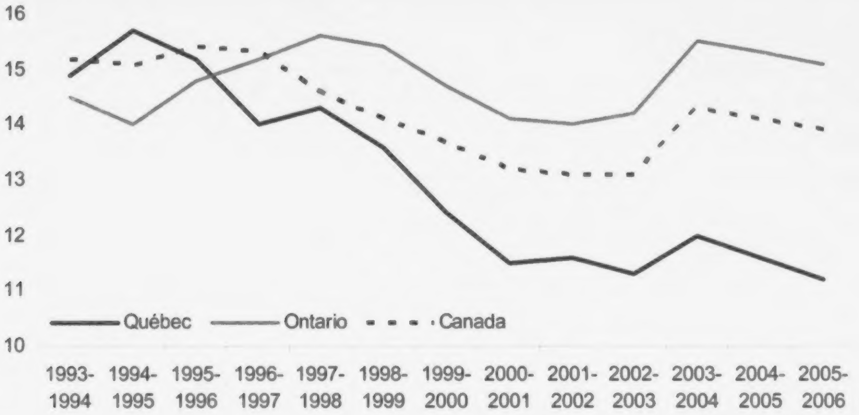
Whereas in the past, Québec performed well in terms of business creation, it is now among the least dynamic provinces in Canada in this regard.

From 1994-1995 to 2005-2006, the rate of business creation went from:

- 15.7% to 11.2% in Québec;
- 14.0% to 15.1% in Ontario;
- 15.1% to 13.9% in Canada.

CHART E.11

Change in the rate of business creation
(percentage)



Sources: Statistics Canada, Small Business and Special Surveys Division, personalized data produced under the Longitudinal Employment Analysis Program (LEAP) and Ministère des Finances du Québec.

This situation is worrisome because, for sustainable growth of its economy, Québec must be able to count on the creation of successful new businesses that can seize business opportunities in Québec and on export markets.

❑ Entrepreneurial culture

The low rate of business creation in Québec is attributable in part to an entrepreneurial culture that is less developed than elsewhere in Canada, as shown by the results of a survey done in June 2010 by the Fondation de l'entrepreneurship.

The study shows that Quebecers are proportionally half as likely to go into business as Canadians as a whole. This difference is especially pronounced with Ontario (4.2 percentage points) and the western provinces (10.0 percentage points).

The proportion of the population that has actively taken steps to start a business is also lower in Québec (3.6%) than in Ontario (4.8%), Alberta and British Columbia (6.1%) and Canada as a whole (4.6%).

TABLE E.18

Entrepreneurship index by province and in Canada – 2010

(as a percentage of the population)

	Québec	Ontario	Western provinces[1]	Canada
Entrepreneurial intention	6.9	11.1	16.9	11.2
Business creation steps	3.6	4.8	6.1	4.6

1 Alberta and British Columbia.

Source: Fondation de l'entrepreneurship, in partnership with the Business Development Bank of Canada, *Canadian Entrepreneurship Status 2010*.

Accordingly, Quebecers must first develop a taste for entrepreneurship and then the necessary conditions must be put in place so that those who dream of starting a business can turn that dream into reality. By focusing on the development of a strong entrepreneurial culture, Quebecers' innovative ideas can be transformed into businesses.

❑ Business succession and transmission

The situation regarding business succession is worrisome for Québec's economy since a large number of business owners will be retiring within a few years. Accordingly, if nothing is done, Québec risks facing a shortage of entrepreneurs that could weaken Québec's business network.

— The Ministère du Développement économique, de l'Innovation et de l'Exportation (MDEIE) anticipates that almost 55 000 entrepreneurs will retire by 2018.[6]

— It also estimates that the number of new business owners will not be enough to fill the gap, leaving a deficit of 25 200 entrepreneurs.

The massive departure of experienced entrepreneurs raises significant challenges.

— With a smaller number of new entrepreneurs, it will be that much more important that they succeed in business.

— Business transmission must be the focus of a planned and coordinated process to increase the chances of success both for the party ceding the business and for the party taking it over.

As the indicators show, Québec faces numerous challenges regarding entrepreneurship. Accordingly, it is important to ensure that Quebecers have an environment favourable to business creation and transmission.

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[6] Ministère du Développement économique, de l'Innovation et de l'Exportation, *Le renouvellement de l'entrepreneuriat au Québec : un regard sur 2013 et 2018.*

To do so, measures must be put in place to foster the implementation of entrepreneurs' business projects through assistance and mentoring and by offering them financing conditions that satisfy their particular needs. Accordingly, the 2011-2012 Budget stipulates initiatives of:

- $80 million for business creation and assistance for new entrepreneurs;
- $20 million to develop an entrepreneurial culture;
- $210 million to ensure entrepreneurial succession;
- $11 million to support tourism businesses.

TABLE E.19

Measures to encourage entrepreneurship and business succession
(millions of dollars)

	Financial impact[1]				
	2011-2012	**2012-2013**	**2013-2014**	**Total**	**Amounts of measures[2]**
Business creation and assistance for new entrepreneurs					
- Capital Anges Québec	0.1	0.2	0.5	**0.8**	30.0
- Deferral of repayment of the loan envelope of LIFs	0.9	2.1	3.3	**6.3**	50.0
- Renewal of the local venture capital fund category	—	—	—	—	—
Subtotal	**1.0**	**2.3**	**3.8**	**7.1**	**80.0**
Entrepreneurial culture					
- Enhancement of entrepreneurship measures	**5.0**	**5.0**	**10.0**	**20.0**	**20.0**
Entrepreneurial succession					
- Relève Québec fund	0.2	0.4	0.6	**1.2**	50.0
- Additional capitalization of LIFs to foster entrepreneurial succession	3.5	0.5	0.5	**4.5**	10.0
- Increase in the capitalization of Capital régional et coopératif Desjardins from $1 billion to $1.25 billion	9.0	9.0	9.0	**27.0**	150.0
Subtotal	**12.7**	**9.9**	**10.1**	**32.7**	**210.0**
Support for tourism businesses					
- Fund to support the growth of tourism SMEs	—	0.1	0.1	**0.2**	5.0
- Enhancement of regional tourism partnership agreements	1.0	1.0	1.0	**3.0**	6.0
Subtotal	**1.0**	**1.1**	**1.1**	**3.2**	**11.0**
TOTAL	**19.7**	**18.3**	**25.0**	**63.0**	**321.0**

1 The financial impact includes the impact, if any, on the government's debt service.
2 These amounts include the partners' share.

Overall, the measures of the 2011-2012 Budget regarding entrepreneurship will fund additional initiatives of $321 million over the next three years.

These measures will be part of the entrepreneurship strategy whose details will be announced by the Minister of Economic Development, Innovation and Export Trade in the near future.

5.1 Business creation and assistance for new entrepreneurs

5.1.1 Capital Anges Québec: $30 million for seeding and startup of technology businesses

Angel investors are key players in the seeding and startup of businesses. They provide the link between "love money" and financing supplied by venture capital funds. They also play an important mentoring role with entrepreneurs by sharing their knowledge of the business's activity sector as well as their entrepreneurial and management experience. Mentoring is often crucial in the success of new entrepreneurs.

Angel investors and the Anges Québec network

Angel investors

Angel investors are successful entrepreneurs or former business leaders who make private investments in an innovative business with strong growth potential and who, in addition to their money, make their skills, experience, network of relationships and a portion of their time available to the entrepreneur.

Angel investors invest in emerging businesses that are generally at the seeding or startup stage.

Anges Québec

Anges Québec is a network of angel investors whose chief mission is to pool a business network to identify the best entrepreneurs and business opportunities and provide support to members who finance them.

The members of Anges Québec are experienced entrepreneurs who contribute to the launch and growth of businesses in a variety of sectors. Each member independently makes decisions on his investments and becomes involved in business projects that meet his investment criteria. He can play a financial or participative role in activities, such as mentoring, participation on boards of directors, promotion of projects with its business network or formulation of business strategies.

Sources: Anges Québec and Ministère des Finances du Québec.

To foster the involvement of angel investors in financing the first stages of development of Québec technology companies, the 2011-2012 Budget stipulates the creation of the Capital Anges Québec fund.

☐ A $30-million partnership with angel investors

Capital Anges Québec will be constituted as a limited partnership and the government will make a contribution of $20 million towards its capitalization. Investissement Québec will be the fund's limited partner.

Investments by angel investors totalling $10 million will be matched with investments by the fund. The total amount available for businesses will thus be $30 million.

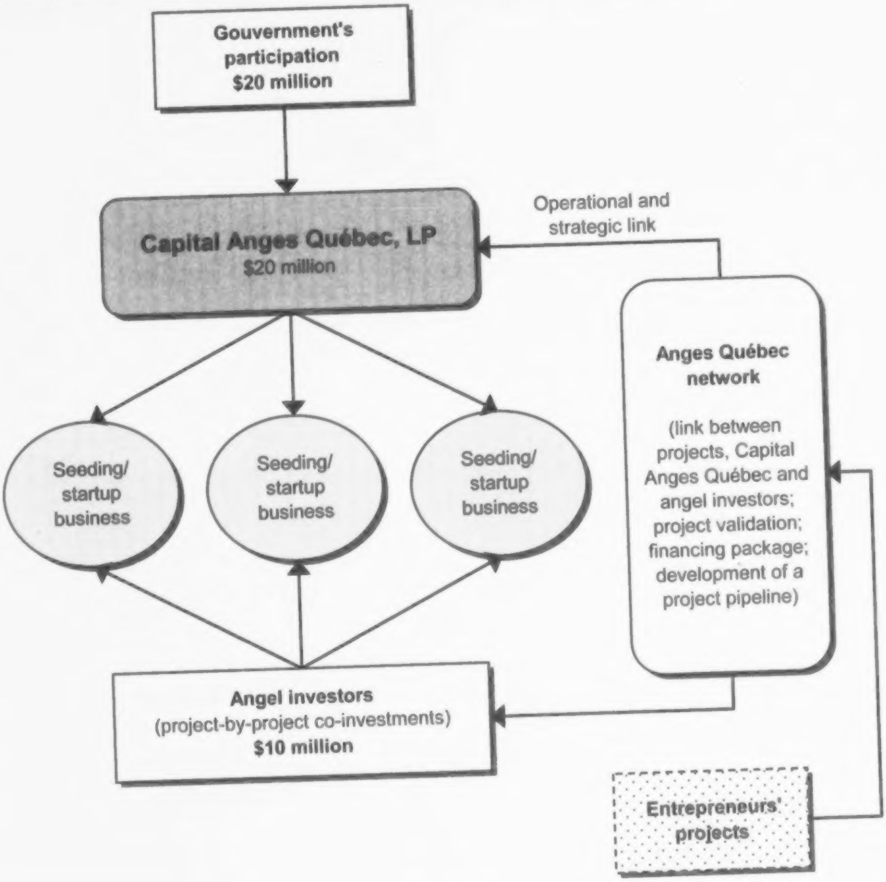
In this way, Capital Anges Québec will enjoy significant synergy with the largest network of angel investors in Québec (Anges Québec). The Anges Québec network will link entrepreneurs with the fund. Its resources will be put to use to forward, analyze and work up the financing package for investment projects submitted to the fund. Accordingly, the fund will help further structure the activity of angel investors in Québec for the benefit of young Québec technology companies.

The fund's rules of governance and the code of ethics will be similar to those Investissement Québec adopted for the implementation of the seed funds announced in the 2009-2010 Budget. These rules are consistent with best business practices.

The government's capital outlays will be recorded as investments and will have no budgetary impact.

CHART E.12

Structure and operation of Capital Anges Québec


Gouvernment's participation $20 million
Capital Anges Québec, LP $20 million
Operational and strategic link
Anges Québec network
(link between projects, Capital Anges Québec and angel investors; project validation; financing package; development of a project pipeline)
Seeding/ startup business
Seeding/ startup business
Seeding/ startup business
Angel investors (project-by-project co-investments) $10 million
Entrepreneurs' projects

❑ Mission and investment policy

Capital Anges Québec's mission, lasting twelve years, will be to invest in Québec companies operating in particular in the information technology and industrial technology sectors in the initial stages of development (proof of concept, seeding and startup).

This measure will help support Québec entrepreneurship while benefiting from the expertise of angel investors. This initiative will enable a new generation of technology companies to see the light of day, fostering productivity gains in Québec by the same token.

5.1.2 Deferral of repayment of the loan envelope of local investment funds

Local investment funds (LIF) seek to stimulate local entrepreneurship by fostering access to capital for starting up or expanding traditional or social businesses. They are the chief financial assistance measure available to local development centres (CLD) to support local entrepreneurship. Entrepreneurs who need financing for their business projects highly appreciate LIFs.

CLDs will no longer be able to provide businesses with financial assistance under the LIFs as of January 1, 2012. In addition, they will have to begin repaying LIF loans as of June 2012.

In view of how important LIFs are for supporting entrepreneurship in the regions, the 2011-2012 Budget stipulates that repayment of LIFs will be deferred for three years. Accordingly, CLDs will be able to continue playing a crucial role in the economy of the regions.

Thanks to this deferral, CLDs will be able to make additional investments of $25 million in 2012-2013 and 2013-2014.

5.1.3 Renewal of the local venture capital fund category

☐ Investments that contribute to the emergence of private venture capital funds and technology companies in Québec

In the 2005-2006 Budget, the Québec government announced the creation of a new category of eligible investment for the purposes of the investment requirement of tax-advantaged funds, namely *local venture capital funds created and managed in Québec or local funds recognized by the Minister of Finance*. The eligibility of these investments is designed to ensure adequate financing for Québec technology companies and sustain the emergence in Québec of private venture capital funds.

Under this category, tax-advantaged funds are allowed to include as eligible for their investment requirement an amount equivalent to 5% of their net assets at the end of the preceding fiscal year. The amounts eligible for this category are increased by 50% for the purposes of calculating the requirement.

☐ Convincing results

As at November 30, 2010, tax-advantaged funds had committed more than $280 million in 23 local venture capital funds. These funds have invested in more than 220 companies.

TABLE E.20

Investments by tax-advantaged funds in local venture capital funds

	Amounts committed in local funds ($M)	Number of local funds	Number of companies in the portfolio of local funds
Fonds de solidarité FTQ[1]	202	12	118
Fondaction[2]	60	9	97
Capital régional et coopératif Desjardins[2]	20	2	7
TOTAL	**282**	**23**	**222**

1 As at November 30, 2010.
2 As at September 30, 2010.
Sources: Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins.

☐ Renewal of the category regarding local funds

The eligibility of investments made under this category expires on March 23, 2011.

On May 31, 2010, Fondaction, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, had practically reached its eligibility cap. Its eligible investments in local venture capital funds amounted to 4.9% of its net assets.

To enable tax-advantaged funds to continue investing in local venture capital funds, the 2011-2012 Budget stipulates that the investment category will be renewed until May 31, 2016.

This measure will enable tax-advantaged funds to support the government's efforts to structure a private venture capital industry and to continue supporting emerging technology companies in Québec. In addition, the investment limit of the category will be withdrawn to enable technology companies to receive more investments from tax-advantaged funds.

5.2 Entrepreneurial culture

5.2.1 Enhancement of entrepreneurship measures

To secure sustainable economic growth for Québec, the government must focus on experienced entrepreneurs as well as young people with new ideas and business projects.

To do so, it must foster the emergence of a strong and stimulating entrepreneurial culture, and eliminate obstacles to the creation of new businesses in Québec.

Over the past number of years, the government has set up a series of business support, assistance and startup measures. Significant financial and human efforts have been made for entrepreneurs of all stripes.

To continue these efforts and better support people with a business project, $20 million will be allocated over three years to the MDEIE to improve its existing programs and add innovative measures.

Accordingly, additional funding of $5 million in 2011-2012 and 2012-2013, as well as $10 million in 2013-2014 will be allocated to the MDEIE to improve certain existing measures. The funding for 2011-2012 will be drawn from the Contingency Fund.

5.3 Entrepreneurial succession

5.3.1 Creation of the Relève Québec Fund: $50 million for entrepreneurial succession

Reflecting Québec's population, many of its entrepreneurs will want to retire. Over the coming decade, it is expected that the number of new entrepreneurs will not be sufficient to replace those who retire.

Becoming an entrepreneur demands a great deal of determination, a flair for risk-taking and a minimum of cash resources to go into business and carry out promising projects. Transfer projects often fail because the entrepreneurs who succeed business owners who want to retire (business buyers) are unable to make a sufficient initial investment.

To facilitate the transfer of businesses and thus help Québec meet the challenge of entrepreneurial succession, the 2011-2012 Budget stipulates the creation of the Relève Québec Fund.

The government's capital outlays will be recorded as investments and will have no budgetary impact.

❑ A $50-million partnership with tax-advantaged funds for entrepreneurial succession

The Relève Québec Fund will have $50 million in capital. The government, through the Fonds du développement économique, will contribute $20 million towards the fund's capital, which will be completed by contributions of $10 million by the Fonds de solidarité FTQ, $10 million by Fondaction and $10 million by Capital régional et coopératif Desjardins (CRCD).

The Relève Québec Fund will be structured as a limited partnership and will be managed by Investissement Québec.

❑ Mission and lending and investment policies

The Relève Québec Fund, which will last twelve years, will offer loans at attractive interest rates for business transfers to fund part of the initial investments by business buyers. These loans will include other attractive conditions, such as moratorium on principal repayment.

To tap the fund, the business buyer must be an individual and make a minimum initial investment of $50 000. In addition, the transferred corporation must have a participation by one of the three tax-advantaged funds or an entity of their network as unsecured lender, minority or majority investor.

Loans by the fund will be equivalent to the invested capital of the business buyer. Loans to a business buyer will range between $50 000 and $200 000. Where more than one business buyers associate to acquire a business, a maximum amount of $500 000 will be allocated per business.

Classic financing of a business transfer involving a tax-advantaged fund

The classic formula for financing a business transfer that involves a tax-advantaged fund is as follows:

- An initial investment is required of the new entrepreneur.
  - Often, he does not have the cash resources needed for this initial investment.
- The tax-advantaged fund extends an amount, either as a loan or equity.
- A financial institution can complete the financing by issuing a debt security to the corporation.

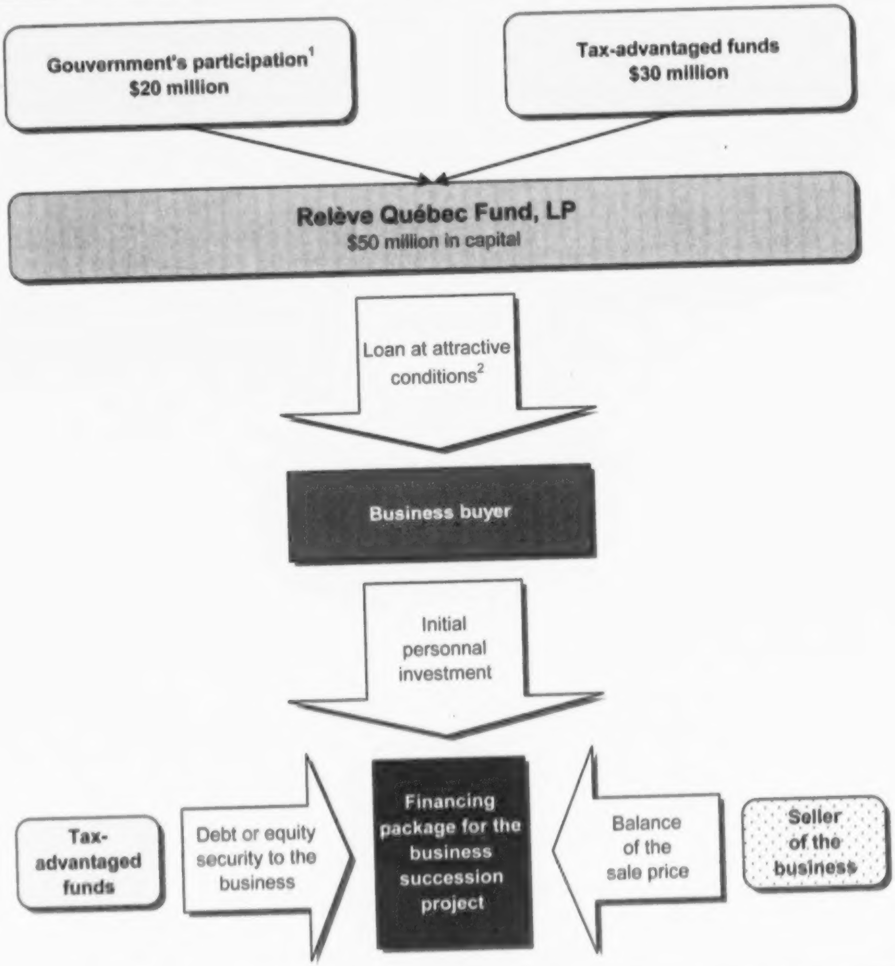
Where the initial investment, equity and debt are enough to seal the transaction, a "balance of sale price" formula is negotiated with the seller. Under this formula, the seller is paid part of the sale price and the balance of the payment is made over a period generally equivalent to that of the loan to the corporation.

Illustration of a typical business transfer financing
(dollars)

	Sale of the business	Structure of the transfer project financing
Amount of the business sale	4 000 000	
Financing structure		
- Initial investment of the new entrepreneur		250 000
- Tax-advantaged fund (loan or equity)		1 250 000
- Loan by a financial institution		1 500 000
- Balance of sale price		1 000 000
TOTAL		**4 000 000**

CHART E.13

Structure and operation of the Relève Québec Fund


Gouvernment's participation[1]
$20 million
Tax-advantaged funds
$30 million
Relève Québec Fund, LP
$50 million in capital
Loan at attractive conditions[2]
Business buyer
Initial personnal investment
Tax-advantaged funds
Debt or equity security to the business
Financing package for the business succession project
Balance of the sale price
Seller of the business

---

1 Fonds du développement économique.

2 For example, a loan with a principal repayment moratorium.

It is expected that the fund will be able to finance from 330 to 500 projects. On the basis of a typical financing package of $4 million per project, the fund will be able to finance projects for a total of $2 billion.

The Relève Québec Fund will be able to invest in the activity sectors stipulated in the investment policies of the tax-advantaged funds.

Moreover, to further support entrepreneurial succession by fostering the implementation of less costly financing structures, the statutes of incorporation of tax-advantaged funds will be amended so that investments incorporating security made by a tax-advantaged fund in a business under a financing package in which the fund participates are eligible investments.

5.3.2 Additional local investment fund capital to foster entrepreneurial succession

To increase the availability of capital dedicated to financing for new entrepreneurs, particularly in the regions, the envelope of the LIFs will be increased by $10 million for the most successful CLDs.

This amount will enable CLDs with the best management practices to bolster their activity with entrepreneurs, in particular new entrepreneurs that need financing to take over an existing business.

Since 1998, the LIFs have made a total of $175 million in capital available to the CLDs. The additional $10 million will bring this amount to $185 million.

To that end, additional funding of $3 million will be allocated to the Ministère du Développement économique, de l'Innovation et de l'Exportation in 2011-2012. The funding will be drawn from the Contingency Fund.

Local investment funds

In 1998, local investment funds (LIF) were made available to the 120 local development centres (CLD). The LIFs provide financial assistance for business startup or expansion, including businesses in the social economy.

These funds also enable a young entrepreneur to acquire an interest of at least 25% of the value of an existing business located in the territory where the National Policy on Rurality applies.

With the additional $10 million announced in the 2011-2012 Budget, the total capital of LIFs amounts to $185 million.

Growth in the LIF envelope[1]
(millions of dollars)

	Local investment funds
Initial funding (1998)	99
2001-2002 Budget	31
2006-2007 Budget	45
2011-2012 Budget	10
TOTAL	**185**

[1] In addition to the basic operating budget of the CLDs.

The LIFs are highly appreciated and used by CLDs to assist businesses. CLDs have made loans from LIFs worth $163.4 million as of November 15, 2010, i.e. 93.4% of the amount allocated to the program.

Since their introduction, LIFs have helped create and maintain almost 89 000 jobs and roughly 8 200 businesses. In addition, the LIFs have generated more than $3 billion in investment.

LIF operations – 1998-2009[1]

	Total[2]
Number of jobs created and maintained	88 774
Number of companies created and expanding	8 208
Investments ($M)	
– Monetary contributions by the CLDs	302
– Total investment	3 048

[1] Source of data: CLD computerized accounting system.
[2] Excluding the figures for 2005 to 2009 of the 18 CLDs in the Montréal region.
Source: Ministère du Développement économique, de l'Innovation et de l'Exportation.

Nature of the financial assistance

The financing provided by CLDs can consist of a loan, an equity loan, a loan guarantee, security, acquisition of bonds or other debt securities, participation in the capital stock, share capital or other form of participation, excluding investments consisting of subsidies.

5.3.3 Increase in the capitalization of Capital régional et coopératif Desjardins from $1 billion to $1.25 billion

The mission of Capital régional et coopératif Desjardins (CRCD) is to contribute to economic development of Québec by investing in Québec SMEs by marshalling venture and development capital for the resource regions and cooperatives.

☐ Status report

As at December 31, 2010, CRCD had 111 476 shareholders and its net assets stood at just over $1 billion. In its 2010 share issue campaign, CRCD sold $150 million in shares, i.e. the maximum allowed by its statute of incorporation.

CRCD is a major player in the financing of Québec SMEs. As at December 31, 2010, total commitments by CRCD amounted to over $670 million among 238 companies, cooperatives and funds, contributing to the creation or maintenance of some 36 000 jobs.

TABLE E.21

Main financial parameters and investments of Capital régional et coopératif Desjardins

	Fiscal year ended December 31, 2010
Number of shareholders	111 476
Net assets ($ millions)	1 020
Investments (total commitments - $ millions)	670
Number of companies receiving investments	238
Number of jobs created and maintained by CRCD investments	36 000
Funds raised[1] ($ millions)	150

[1] Subscriptions for the 2010 share issue campaign that ran from April 21, 2010 to February 28, 2011. The $150 million raised represents the annual cap authorized for the 2010 share issue campaign. Subscriptions for fiscal year 2010, which began January 1, 2010 and ended December 31, 2010, amounted to $181 million.

Source: Capital régional et coopératif Desjardins.

CRCD has also participated, in recent years, in major initiatives for the growth of SMEs and entrepreneurial succession. In particular, in partnership with the Caisse de dépôt et placement du Québec, CRCD committed, in January 2010, $100 million in the Capital Croissance PME fund, a $200-million development capital fund whose mission is to support the growth and development of small enterprises in every region of Québec.

The existing provisions of the *Act constituting Capital régional et coopératif Desjardins* stipulate that the maximum capital of CRCD is $1 billion. At the end of its 2010 share issue campaign, i.e. February 28, 2011, CRCD had reached its maximum capital. Consequently, CRCD will not be able to collect as much in subscriptions as previously, thus limiting its future investment capacity accordingly.

☐ Increase in the capital limit of Capital régional et coopératif Desjardins from $1 billion to $1.25 billion

To enable CRCD to continue its financing activities with Québec SMEs, especially those in the resource regions, the 2011-2012 Budget stipulates that CRCD's capital limit will be raised from $1 billion to $1.25 billion.

This initiative will notably enable CRCD to continue its partnership with the Caisse de dépôt et placement du Québec in the Capital Croissance PME fund.

5.4 Support for tourism businesses

5.4.1 $5-million fund to support the growth of tourism SMEs

To differentiate itself from the competition and attract foreign tourists, Québec must renew its tourism offering, which requires substantial investments. Tourism sector businesses often experience problems accessing financing because of the seasonal nature of their projects.

To stimulate investment in tourism SMEs and foster the emergence of innovative projects, the 2011-2012 Budget stipulates the creation of an investment fund. This fund will have $5 million in capital, with the government providing a contribution of $1.7 million and Filaction[7] the remaining $3.3 million.

This fund will help finance projects that will contribute to improving the tourism offering by attracting new customers and extending the activity period of targeted companies.

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[7] Filaction's mission is to assist Québec SMEs by offering them part of the capital required to achieve their development objective through equity interests, equity loans and loan guarantees.

More specifically, the fund will support the development of the service and activity offering in the vicinity of three national parks (Tremblant, Saguenay and Gaspésie). The goal is to make packages available that combine nature activities, guide services, a variety of lodging and restaurant services that include local products.

- For example, in the Parc de la Gaspésie, the fund may support businesses that offer services that complement those provided by the Société des établissements de plein air du Québec (Sépaq), in particular tobogganing and snowshoeing activities.
- In the Parc du Saguenay, the fund could enable related companies, including those offering lodging, to intensify their marketing activities and attract new client segments to increase commercial traffic in winter.

Moreover, outfitters will also be able to receive support from the fund to diversify their offering and attract a new family clientele more interested in ecotourism and wildlife observation, an accelerating growth segment.

The implementation of this fund will help attract venture capital investments to finance structuring tourism projects in Québec's regions.

The Minister of Tourism will specify the operating details relating to the fund's implementation at a later date.

The 2011-2012 Budget stipulates payment of $1.7 million, consisting of a loan or advance, to the Ministère du Tourisme, the details of which will be agreed with the Ministère des Finances.

5.4.2 Enhancement of regional tourism partnership agreements

Regional tourism partnership agreements seek to associate various partners with projects targeting the development of the tourism offering, acknowledged as regional priorities. Under these agreements, the Ministère du Tourisme matches the amounts that regional tourism associations wish to invest.

- To date, $13 million, including almost $5 million from the Ministère du Tourisme, has been provided as grants in 272 projects in many regions of Québec.
- These projects will generate total investments of $164 million, thus generating significant leverage.

Examples of achievements related to regional tourism partnership agreements

In recent years, many projects have received support from the Ministère du Tourisme under regional tourism partnership agreements.

- La Vallée Bras-du-Nord, an outdoors cooperative located in Saint-Raymond, received $120 000 in financial assistance from the Ministère du Tourisme to complete the financing for the construction of two new reception and service buildings, for which the value of the investments amounts to $440 000.
- The Maeva Surf enterprise received assistance of $50 000 from the Ministère du Tourisme as part of a project worth $1.7 million to build an indoor surf wave generator. The project is located in Laval.
- The Corporation de développement culturel de Trois-Rivières was able to develop the Borealis pulp and paper industry exhibition centre in a former plant of Canadian International Paper thanks to assistance of $75 000 from the Ministère du Tourisme as part of an overall project of $2.3 million.
- The Petit Théâtre du Vieux-Noranda received $50 000 from the Ministère du Tourisme to acquire equipment and renovate its auditorium, for a total investment of $318 000.

To accentuate the tourism efforts associated with these agreements, the 2011-2012 Budget stipulates a $3-million increase in their envelope over three years.

In addition to the renewal of these agreements, this increase will help broaden their eligibility criteria to enable the funding of structuring projects in the regions, such as festivals and events. However, most of the funding will be allocated to investments targeting the development of the tourism offering.

The projects funded under these agreements will foster the development and improvement of the tourism offering in the regions, which will help to attract new customers.

To that end, additional funding of $1 million per year will be granted to the Ministère du Tourisme from 2011-2012 to 2013-2014. The funding for 2011-2012 will be drawn from the Contingency Fund.

The Minister of Tourism will announce the changes to the eligibility criteria at a later date.

6. PURSUING QUÉBEC'S DIGITAL SHIFT

6.1 A digital Québec

☐ Difficult deployment of digital technologies

Compared to the situation elsewhere in Canada, Québec lags in investment in the information and communications technology sector.

— Between 2000 and 2007, growth in such investments for Québec's economy as a whole was 1.2 percentage points below the Canadian average (8.4% compared with 9.6%).

— Over the same period, growth in investment in the telecom equipment subsector was almost zero in Québec, i.e. 0.8%, the lowest among the provinces, with the average being 3.1%.

This under-investment contributes to the difficulties experienced in Québec in deploying digital technologies, because it limits the level of service offered by telecom networks, increases the cost of high-speed internet access and exacerbates the digital divide between urban and remote regions.

— In 2009, 91.5% of Québec homes were served by a high-speed internet provider capable of speeds of at least 1.5 megabits per second (Mbps). Roughly 290 000 Québec homes were not yet served by such a provider.

— According to a survey by the Centre francophone d'informatisation des organisations (CEFRIO), released in 2009, the internet connection rate for SMEs, regardless of speed, was 89.0% in the Montréal and Québec City metropolitan regions and 83.0% elsewhere. Only 64.8% of Québec SMEs with an internet connection had a website and just 13.1% of these had a transactional website.

High-speed internet

Industry Canada has established that "high-speed" service means service offering a minimum speed of 1.5 megabits per second (Mbps).

In the United States, the Federal Communications Commission considers that 4 Mbps is the minimum required for high-speed internet service.

For illustration purposes, South Korea currently offers its citizens access at 100 Mbps and will raise this threshold to 1 gigabit per second (equivalent to 1 000 Mbps) by 2012.

The difficult deployment of digital technologies in Québec is all the more worrisome when one considers that these technologies contribute to improving an economy's productivity and Québec suffers from a serious deficit in this regard.

☐ The importance of fostering high-speed internet access

The phenomenal development of digital technologies, content and applications is generating a substantial increase in the volume of digital data carried over telecom networks.

Incidentally, it is believed that, in a few years, it is highly likely that the current infrastructure will no longer be able to provide the required level and quality of service. According to CEFRIO, many Quebecers will be unable to use the internet for what many citizens and entrepreneurs in other countries will be able to do on a routine basis by 2015.

In this context, the performance of Québec's economy and the productivity of its companies cannot grow optimally if access to digital technologies is limited and the quality of infrastructures available in Québec is deficient.

- To illustrate, according to the World Bank, each increase of ten high-speed internet connections per 100 of population induces a 1.2% gain in gross domestic product.

This new reality is encouraging many countries to adopt a strategy to ensure their citizens and businesses benefit fully from digital technologies to meet their needs in innovative ways.

Digital strategies adopted by various governments

AUSTRALIA

The government, in partnership with the private sector, has decided to invest roughly C$43 billion in telecom infrastructure by 2018 (installation of a very-high-speed network throughout the country). This investment will ensure the deployment of a national broadband network by replacing the copper telephone network with a fibre-optic network connecting 90% of Australian homes.

FRANCE

The commitment under the “France numérique 2012” action plan is to enable all French citizens to access digital networks and services. Accordingly, France will invest C$13 billion to deploy a fibre-optic network.

UNITED STATES

The government intends to bring forward a policy stipulating that 98% of Americans will have high-speed internet access within five years. To that end, the U.S. administration plans to invest C$7.33 billion between 2011 and 2015 to increase the performance and reach of its existing telecom infrastructures.

FINLAND

In 2008, the Finnish Minister of Transportation and Communications announced an investment program of C$268 million to equip 99% of Finnish homes with fibre-optic connections providing high-speed internet access at a minimum of 100 Mbps by 2016. Moreover, since July 1, 2010, the law in Finland requires that internet service providers offer access at a minimum speed of 1 Mbps.

☐ Implementation of a digital economy strategy

To deal with these major issues for Québec’s economic development, the government intends to implement a digital economy strategy. The main objective of this strategy is to boost the capacity of individuals, businesses and organizations to take full advantage of the opportunities offered by digital technologies.

As a priority, Québec’s strategy seeks to equip Québec with a network offering very-high-speed internet service in every region of Québec by 2020.

For Québec to take its place among modern and prosperous digital societies, infrastructure investments totalling $900 million will be made by 2020. These funds will be applied to finance investments, fibre optics in particular, detection equipment, network connectors and telecom infrastructures. Of this amount, 20% is stipulated to be invested in various peri-urban regions of Québec, while the rest will be spent in more remote regions.

For this strategy to be successful, the capacity of existing infrastructures, both public and private, will have to be developed and upgraded. It is expected that the bulk of these strategic investments will be made on existing networks. The deployment strategy will therefore build on the assets in place throughout Québec, which includes:

- the Réseau intégré de télécommunication multimédia (integrated telecommunications multimedia network), which offers a data transmission service for the health networks, government departments and other public bodies;
- the Réseau d'informations scientifiques du Québec (scientific information network of Québec), which mainly brings together the universities and CEGEPs;
- school buildings, municipal buildings, public libraries as well as hospitals and research centres;
- other public transmission networks.

To that end, additional funding of $1.1 million in 2011-2012, $4.5 million in 2012-2013 and $9.0 million in 2013-2014 will be allocated to the Secrétariat du Conseil du trésor. The funding for 2011-2012 will be drawn from the Contingency Fund.

The Chair of the Conseil du trésor will spell out the details of the digital economy strategy at a later date.

7. SUPPORT THE DEVELOPMENT OF DERIVATIVES

7.1 Proposed Institut de la finance structurée et des instruments dérivés de Montréal

In its 2010-2011 Budget, the Québec government indicated its intention to foster the development of the financial sector, in particular by supporting the establishment of a roundtable.

This support has produced results and Finance Montréal - La Grappe financière du Québec was formed in the fall of 2010.

The cluster has 17 founding members, most of them from Québec's financial sector.

Since it was formed, two projects have been initiated:

— derivatives;

— entrepreneurship.

As part of the work on the derivatives project, Finance Montréal has decided to support the creation of the Institut de la finance structurée et des instruments dérivés de Montréal.

The Institute, an initiative of HEC Montréal, will be a centre of excellence in teaching, training, research and transfer regarding structured finance and derivatives for businesses in the financial sector.

It will receive funding of $15 million over ten years.

— The Québec government will make a financial contribution of $1 million over 10 years for the Institute's startup and development.

— The Autorité des marchés financiers will add a contribution of $5 million over 10 years drawn from the Education and Good Governance Fund.

— HEC Montréal will also contribute to the funding by attributing amounts collected by the Fondation HEC Montréal, amounting to $3 million over 10 years, and by supplying goods and services for an estimated value of $6 million over 10 years.

— The Institute's financing may be completed by contributions by the private sector in relation to specific projects. In this situation, the Institute will make an additional contribution.

— Already, major institutions such as the Caisse de dépôt et placement du Québec, the Montréal Exchange, the Mouvement Desjardins, the Bank of Montreal and Power Corporation have shown their support for the project.

— A representative board of directors will provide good governance. The Institute will also include a training committee as well as a scientific committee of seven members including at least four drawn from Québec universities and two academics, with international reputations, from outside Québec.

To that end, additional funding of $1 million over 10 years, i.e. $100 000 per year as of 2011-2012, will be granted to the Ministère des Finances.

CONSOLIDATING OUR SOLIDARITY TOOLS

8. SUPPORTING FAMILIES AND SENIORS

8.1 Enhancement of the family policy

In the early 1960s, the Québec government paid family allowances for the first time to Québec parents. Since then, government assistance for families has been greatly enhanced. Today, Québec's family policy focuses on three areas:

- financial support for parents;
- child-care assistance;
- the Québec parental insurance plan.

☐ Financial support for parents

Financial support for parents consists primarily in the monthly or quarterly payment of the refundable tax credit for child assistance. That support is augmented by measures to meet specific needs.

In 2010, $2.6 billion was paid to Québec families as financial support for parents.

☐ Child-care assistance

The Québec government provides financial support for child care, in particular by subsidizing reduced-contribution daycare spaces and granting a refundable tax credit for child-care expenses other than reduced-contribution expenses.

In 2010, the Québec government devoted $2.8 billion to child-care assistance.

☐ Québec parental insurance plan

Since 2006, Québec parents have had access to higher parental insurance benefits paid for a longer period than in the rest of Canada, and to benefits specifically for fathers.

In 2010, minus tax levies, the Québec parental insurance plan granted $1.3 billion to 207 500 Québec parents.

☐ Total financial support

In 2010, Québec families received a total of $10.4 billion in financial support, including $6.7 billion from the Québec government.

— From 2003 to 2010, the total financial support paid to families rose by more than 70%.

TABLE E.22

Financial support for families – Québec and federal assistance
(billions of dollars)

	2003	2010
QUÉBEC GOVERNMENT		
Financial support for parents		
Child assistance payment[1]	—	2.1
Work premium	—	0.2
Other measures	1.6[2]	0.3[3]
Subtotal	**1.6**	**2.6**
Child-care assistance		
Educational child-care services – early childhood	1.3	2.0
Educational child-care services – school	0.2	0.2
Refundable tax credit for child-care expenses	0.2	0.3
Other measures[4]	0.3	0.4
Subtotal	**2.0**	**2.8**
Québec parental insurance plan (QPIP)[5]	**0.5**	**1.3**
Subtotal – Québec	**4.1**	**6.7**
FEDERAL GOVERNMENT		
Financial support for parents[6]	1.9	3.0
Child-care assistance[7]	0.1	0.6
Subtotal – federal	**1.9**	**3.7**
TOTAL	**6.0**	**10.4**

Note: Figures have been rounded off, so they may not add up to the total indicated.

[1] Including the supplement for handicapped children.

[2] Mainly: the Québec family allowance, social assistance, APPORT, refundable tax credits for dependant children.

[3] Mainly: student financial assistance, Québec Education Savings Incentive, non-refundable tax credits for dependant children and Shelter Allowance.

[4] Mainly: age 5 kindergarten, kindergarten in disadvantaged communities and child-care assistance for social assistance recipients.

[5] Total benefits were estimated at $1.7 billion in 2010. Net benefits, after accounting for taxation, totalled $1.3 billion. For comparison purposes, the federal Employment Insurance Program was considered for 2003.

[6] Mainly: Canada Child Tax Benefit and non-refundable Child Tax Credit.

[7] Mainly: Universal Child Care Benefit and Child Care Expenses Deduction.

8.1.1 Creation of 15 000 new reduced-contribution daycare spaces

The creation of reduced-contribution daycare spaces announced in the 2008-2009 Budget is almost complete. In the 2011-2012 Budget, the government plans to create 15 000 new reduced-contribution daycare spaces.

— A first block of 3 000 spaces will be available in 2012-2013.

— Delivery of the 15 000 spaces will take place over four years and will be completed no later than 2015-2016.

The addition of these spaces will bring the number of subsidized spaces to 235 000. These 15 000 additional spaces will represent an investment of $557.9 million by 2016-2017.

To that end, additional funding of $6.8 million in 2012-2013 and $47.2 million in 2013-2014 will be allocated to the Ministère de la Famille et des Aînés.

TABLE E.23

Investments for the creation of 15 000 new reduced-contribution daycare spaces

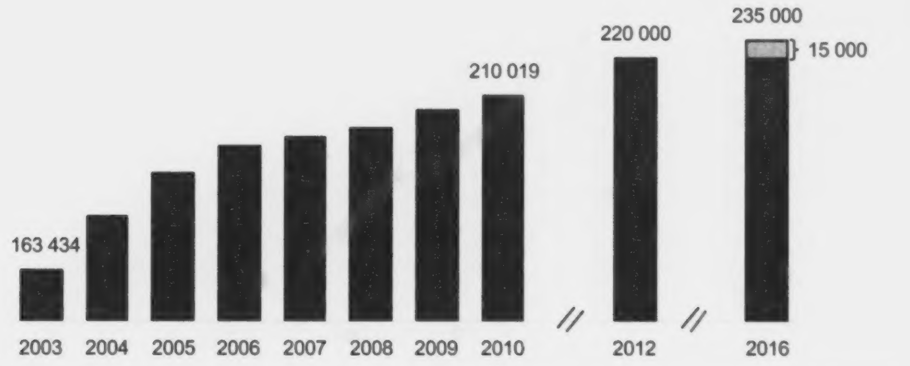
	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Total
Number of new spaces	—	3 000	3 000	4 500	4 500	—	**15 000**
Cost ($M)	—	6.8	47.2	104.6	179.3	219.9	**557.9**

Note: Figures have been rounded off, so they may not add up to the total indicated.

More particularly, the Ministère de la Famille et des Aînés will work, in collaboration with its partners, to create new spaces in the workplace or other institutional settings (e.g. municipalities, health institutions, universities). These businesses or organizations will be able to take part in a project to create a childcare centre (CPE) or daycare centre by defraying all or part of the capital costs of the CPE, or by assuming part of the operating costs. These partnerships will provide even more support to families in regard to work-family balance.

CHART E.14

Number of reduced-contribution daycare spaces
(as at March 31 of the year)



8.1.2 Additional funding for family community organizations and community daycare centres

The Québec government provides financial support to family community organizations (OCF) through the financial assistance program for community family initiatives. Community daycare centres are funded under the financial assistance program for community daycare centres. These programs are under the jurisdiction of the Ministère de la Famille et des Aînés.

❑ Family community organizations

OCF organizations contribute to building appreciation for the role of parents. They offer parents various awareness, support and assistance activities, and help parents find solutions to their problems. OCF organizations encourage parents in their efforts to foster their children's learning and development.

— The government provides financial support to almost 270 OCF organizations, which, each year, reach an average of more than 90 000 families in Québec.

Concretely, depending on the type of services offered, the activities organized by OCF organizations focus on the following areas:

— support for parents and families: prenatal classes, pregnancy support, breastfeeding support, etc.;

— support for children and adolescents: motor development of children 0-18 months of age, language development in children 0-2 years of age, homework assistance, drug prevention, etc.

The government intends to further encourage the action of OCF organizations by granting them additional financial support.

To that end, additional funding of $3 million over three years, that is, $1 million a year from 2011-2012 to 2013-2014, will be allocated to the Ministère de la Famille et des Aînés. The funding for 2011-2012 will be drawn from the Contingency Fund.

— These additional amounts will enable funding to be provided, as of 2011-2012, in particular to 18 OCF organizations that are currently recognized but unsubsidized.

Thus, the total funding granted annually to OCF organizations will rise from $16.4 million to $17.4 million for the next three years.

❑ Community daycare centres

Community daycare centres are intended to provide parents with respite, enable them to participate in parent-child workshops as well as training and social and vocational integration activities, etc.

The government intends to further support the work of community daycare centres by granting them additional assistance.

To that end, additional funding of $500 000 a year will be granted to the Ministère de la Famille et des Aînés. The funding for 2011-2012 will be drawn from the Contingency Fund.

— Community daycare centres that have increased or intend to increase their services will therefore receive more funding.

The additional support will raise government funding of community daycare centres from $3.15 million to $3.65 million a year.

8.2 Meeting the local needs of seniors

The senior population will grow rapidly in the near future. Its increasing size in society is an important issue for the government. Accordingly, appropriate action must be taken to adapt to their reality.

8.2.1 Seniors investment plan

Older persons want to continue living at home as long as they can. However, they must be able to obtain health and assistance services tailored to their personal situation.

To strengthen the service continuum given seniors' different life situations, the government is enhancing the seniors investment plan.

The plan will focus on three priority areas for the government:

- providing more home support in the regions;
- developing spaces in transitional functional recovery units to facilitate the transition from hospital to home;
- diversifying intermediate resources for clienteles requiring less care than that offered in residential and long-term care centres.

This change in the services available and the intervention mechanisms should yield other benefits in terms of quality and accessibility for the population at large, such as:

- a reduction in average hospital stays, because of a broader range of services;
- a reduction in wait times for spaces in residential care facilities;
- a faster turnover in hospital beds due to a more complete range of transitional and home support services.

The plan will receive funding of $150 million in 2011-2012 and $200 million in 2012-2013. The amounts, which are from the health contribution, will be drawn from the authorized expenditure envelope of the Fund to Finance Health and Social Services Institutions.

8.2.2 Greater access to the tax credit for informal caregivers of persons of full age

Responding to population aging will be one of the biggest challenges of the years to come. It is therefore important to help informal caregivers in their role with older persons losing their autonomy.

In this context, the 2011-2012 Budget provides for wider eligibility, as of the 2011 taxation year, to the refundable tax credit for informal caregivers of persons of full age with a severe and prolonged impairment.

Eligibility for the tax credit will be broadened to include:

— informal caregivers who cohabit the dwelling of an eligible relative, provided the latter is unable to live alone;

— informal caregivers of a spouse 70 or over who is unable to live alone.[8]

These changes to the eligibility rules of the tax credit for informal caregivers of persons of full age represent additional assistance of $11.5 million in 2011 and will enable some 17 000 informal caregivers to be newly recognized for their role.

TABLE E.24

Gain attributable to greater access to the tax credit for informal caregivers of persons of full age – 2011

	Number of informal caregivers	Gain ($M)
Informal caregivers cohabiting with a relative	3 600	3.6
Informal caregivers of a spouse	13 500	7.9
TOTAL	**17 100**	**11.5**

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[8] For spouses, only the basic component of the tax credit will be granted. Spouses who live in a residence for elderly persons will continue to be ineligible for the tax credit.

8.2.3 Age-Friendly Municipalities Initiative

In 2008, the Minister responsible for Seniors undertook to promote active aging under the Age-Friendly Municipalities initiative.

Pilot projects were implemented in seven municipalities and will remain in effect until 2013 in order to evaluate how best to adapt policies, services and structures to the reality of seniors.

- For example, adapting services and structures could include extending pedestrian lights, improving lighting in public places or setting up a volunteer transportation services in zones where public transit is limited or non-existent.

To encourage municipalities to join the Age-Friendly Municipalities initiative, the government announced in the 2009-2010 Budget financial assistance of $1 million a year as of 2009-2010. As a result, some 180 municipalities participated in the initiative, making it a big success.

To reach more municipalities, the 2011-2012 Budget provides for further investments. To that end, additional funding of $1 million a year for five years will be allocated to the Ministère de la Famille et des Aînés as of 2011-2012. The funding for 2011-2012 will be drawn from the Contingency Fund.

8.2.4 Information hubs for seniors

Information hubs for seniors offer the most vulnerable older people a free, individualized service for accessing all information on government programs and services for seniors.

The service consists, for example, in assisting and guiding people in their search for information so that they can avail themselves of the government programs they are entitled to. For instance, a person might need assistance in determining whether he or she is eligible for the Guaranteed Income Supplement. In 2008, eight organizations were selected to carry out pilot projects.

To promote the deployment of information hubs in all regions of Québec, the 2011-2012 Budget provides for additional funding of $500 000 in 2011-2012, $700 000 in 2012-2013 and $900 000 in 2013-2014 to be allocated to the Ministère de la Famille et des Aînés. The funding for 2011-2012 will be drawn from the Contingency Fund.

8.2.5 Maisons des grands-parents

The Maisons des grands-parents are non-profit community organizations whose primary objective is to foster an intergenerational rapprochement between seniors, parents, adolescents and young children. With the support of school boards and other local institutions, the Maisons des grands-parents offer services such as homework assistance, collective kitchens, second-hand clothing stores, libraries and family assistance.

The first such organization was founded in Montréal (Villeray) in 1992 further to a symposium of the International Federation of Associations of the Elderly. To date, there are six Maisons des grands-parents organizations in operation in Québec.

The Maisons des grands-parents play an important role in the community. Through local activities and games, they counter isolation and build appreciation for the role of seniors and young people in society.

To better support the Maisons des grands-parents in carrying out their activities to bring the generations closer together, additional funding of $300 000 a year for three years will be allocated to the Ministère de la Famille et des Aînés, as of 2011-2012, for the support for initiatives promoting respect for seniors program. The funding for 2011-2012 will be drawn from the Contingency Fund.

8.2.6 Compensation for seniors admitted to a CHSLD who must resiliate their lease

Currently, individuals who leave their dwelling must pay their rent until the lease expires (maximum 12 months), with the exception, in particular, of elderly persons permanently admitted to a residential and long-term care centre (CHSLD).

In certain cases, individuals admitted to a CHSLD have two payments to make: rent and residential care expenses. In that regard, a deduction may be claimed to reduce the contribution of an adult in residential care and, as a result, the double payment, in the case of individuals with a low income. The deduction is $325, whereas the average rent is $650.

To offer additional support to seniors admitted to a CHSLD who must resiliate their lease, the 2011-2012 Budget provides for an increase in the deduction, from $325 to $650 a month for low-income seniors, for a maximum period of three months, beginning on July 1, 2011.

In that regard, additional funding of $800 000 in 2011-2012 and $1 million a year as of 2012-2013 will be granted to the Ministère de la Santé et des Services sociaux in order to finance the measure. The funding for 2011-2012 will be drawn from the Contingency Fund.

8.2.7 Certification of residences for the elderly

The safety and quality of life of older persons losing their autonomy is a priority for the government. Accordingly, it launched an operation in 2007 to certify the 2 200 Québec residences with a view to instituting tougher conditions for services, organization and safety.

To consolidate the certification process, it is important to reinforce the ability of the Ministère de la Santé et des Services sociaux and the health and social services agencies to assist owners of residences in complying with and maintaining these conditions and bolster current inspection powers.

A unit will therefore be set up to ensure systematic and consistent application of certification-related requirements throughout Québec and support the network in developing solutions and assisting residence owners. For Québec as a whole, a total of 23 inspectors will be hired; each of them will be responsible for follow-up with some one hundred residences.

The Ministère de la Santé et des Services sociaux will be allocated in that regard $1 million in 2011-2012 and $1.5 million for each subsequent year. The funding for 2011-2012 will be drawn from the Contingency Fund.

8.2.8 Additional support of $1.3 billion for seniors

The measures in this budget represent additional investments for seniors of $334 million over a full year, and $1.3 billion over five years.

TABLE E.25

New investments for seniors – 2011-2012 Budget
(millions of dollars)

	Full year	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total over 5 years
Seniors investment plan[1]	200.0	150.0	200.0	200.0	200.0	200.0	**950.0**
Introduction of a tax credit on work income of $10 000 for experienced workers	120.0	—	35.0	50.0	60.0	95.0	**240.0**
Greater access to the tax credit for informal caregivers of persons of full age	11.5	11.5	12.0	12.5	13.0	13.5	**62.5**
Age-Friendly Municipalities initiative	—	1.0	1.0	1.0	1.0	1.0	**5.0**
Information hubs for seniors	—	0.5	0.7	0.9	—	—	**2.1**
Maisons des grands-parents	—	0.3	0.3	0.3	—	—	**0.9**
Compensation for seniors admitted to a CHSLD who must resiliate their lease	1.0	0.8	1.0	1.0	1.0	1.0	**4.8**
Certification of residences for the elderly	1.5	1.0	1.5	1.5	1.5	1.5	**7.0**
TOTAL	**334.0**	**165.1**	**251.5**	**267.2**	**276.5**	**312.0**	**1 272.3**

[1] The seniors investment plan is financed through the Fund to Finance Health and Social Services Institutions.

9. CONTINUING THE FIGHT AGAINST POVERTY

9.1 Investment record to combat poverty

In 2004, the government pledged to inject $2.5 billion over five years in the framework of the first Government Action Plan to Combat Poverty and Social Exclusion.

- The action plan was subsequently renewed until March 2010.

Thus, from 2004-2005 to 2009-2010, government investments under the action plan enabled injections of nearly $4.5 billion to be made to low-income households.

Of that amount, nearly $3 billion was devoted to income support for low-income households, in particular through the:

- indexation of social assistance benefits;
- implementation of various work premiums;
- implementation of the refundable tax credit for child assistance.

In addition, over $875 million was invested in social and community housing, in particular for:

- the construction of social and community housing;
- home renovation and adaptation programs.

Lastly, almost $670 million was injected through other measures, including:

- free medication;
- the employment pacts.

TABLE E.26

Investment record to combat poverty

(millions of dollars)

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	Total over 6 years
ACTION PLAN (2004-2010)							
Income support							
Indexation of social assistance benefits	7	41	88	125	163	217	**641**
Social Assistance and Support Program	—	—	2	15	17	18	**52**
Work premiums[1]	3	203	210	212	223	236	**1 087**
Child assistance payment	94	172	200	215	222	234	**1 138**
Tax credit for home support	—	—	1	8	13	13	**35**
Subtotal	**105**	**416**	**500**	**576**	**638**	**719**	**2 953**
Social housing							
Construction of social and community housing	37	91	117	117	144	126	**633**
Home renovation and adapation program[2]	30	30	28	18	9	35	**151**
Spending increase for the maintenance and renovation of social and community housing units	—	5	5	20	20	15	**65**
Compensation for the increase in social and community housing construction costs	—	—	25	5	—	—	**29**
Subtotal	**67**	**126**	**176**	**160**	**173**	**176**	**878**
Other measures							
Partial exemption of child support income	—	4	14	14	14	14	**60**
Introduction of a minimum social assistance threshold	—	5	10	10	10	10	**45**
Measures to encourage low-income households to save	—	—	5	7	7	7	**26**
Investment in the Réseau québécois du crédit communautaire	2	2	2	2	2	2	**11**
Free medication	—	5	7	24	30	33	**99**
Increase in legal-aid eligibility thresholds	—	2	8	15	22	29	**76**
Fund to foster the development of young children living in poverty	—	—	—	—	—	40	**40**
Employment Pact and Employment Pact PLUS	—	—	—	—	74	235	**309**
Subtotal	**2**	**18**	**46**	**72**	**160**	**370**	**667**
TOTAL	**173**	**559**	**722**	**808**	**971**	**1 265**	**4 498**

Note: Figures have been rounded off, so they may not add up to the total indicated.

[1] Advance payment of the work premium for households without children, supplement for long-term recipients and adapted work premium.

[2] RénoVillage program, home adaptations (persons with disabilities) program, rent supplements for households, Réparation d'urgence program, Home Adaptations for Seniors' Independence Program.

Sources: Ministère de l'Emploi et de la Solidarité sociale and Ministère des Finances du Québec.

9.1.1 Investments of $140 million in the construction of 2 000 new social and community housing units

In recent years, the government has made substantial investments in social, community and affordable housing, with a view to improving the housing conditions of low-income households or households with special needs.

In this perspective, the 2011-2012 Budget provides for additional investments of $140 million in the construction of 2 000 new social and community housing units under the AccèsLogis Québec program.

AccèsLogis Québec

The AccèsLogis Québec program enables housing bureaus, housing cooperatives, and non-profit organizations to create social and community housing with a minimal contribution from their communities for low-income or modest-income households, or groups in difficulty with special needs.

TABLE E.27

Investments in social and community housing
(millions of dollars)

		Financial impact[1]			
	Government investments	2011-2012	2012-2013	2013-2014	Total over 3 years
Investments of $140 million in the construction of 2 000 new social and community housing units	140.0	—	2.7	5.8	**8.5**

[1] The financial impact takes into account a contribution expected from the federal government.

To that end, additional funding of $2.7 million in 2012-2013 and $5.8 million in 2013-2014 will be allocated to the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire.

With the announcement of these new units, the 2011-2012 Budget becomes the eighth consecutive budget to provide for investments in the construction of social, community and affordable housing.

These units, which are in addition to those already announced in previous budgets, bring to 32 000 the number of social, community and affordable housing units announced since 2002-2003, thus exceeding by 19 000 units the initial objective of 13 000 units.

This commitment will raise the investments that have been devoted to the construction of social, community and affordable housing since 2002-2003 to almost $1.9 billion.

TABLE E.28

Number of social, community and affordable housing units, and investments

	Number of units	Investments ($M)
Initial objective attained	13 000	592
Budgets		
2011-2012	2 000	140
2010-2011	3 000	210
2009-2010	3 000	200
2008-2009	2 000	132
2007-2008	2 000	120
2006-2007	1 400	113
2005-2006	2 600	145
2004-2005	3 000	218
Total – 8 most recent budgets	**19 000**	**1 278**
TOTAL	**32 000**	**1 870**

As at December 31, 2010, of the 32 000 planned social, community and affordable housing units:

— 20 392 had been completed;

— 5 082 were in progress;

— 6 526 were under development and to come.[9]

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[9] Including 2 000 new social and community housing units provided for in the 2011-2012 Budget.

Thus, another 11 608 social and community housing units will be made available to low-income households in the years to come.

TABLE E.29

Number of social, community and affordable housing units completed and in progress

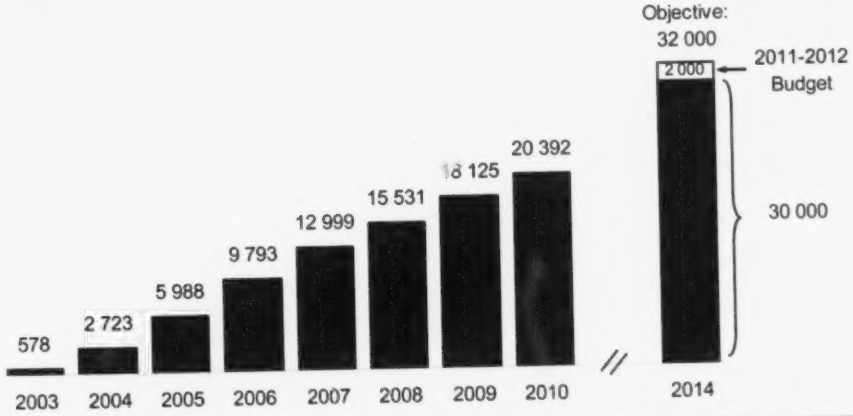
(as at December 31, 2010)

	Units		Units under development and to come			
	Completed	**In progress**	**Before budget**	**2011-2012 Budget**	**Subtotal**	**Total**
Number of units	20 392	5 082	4 526	2 000	6 526	**32 000**

CHART E.15

Number of units completed

(as at December 31 of the year)



Sources: Société d'habitation du Québec and Ministère des Finances du Québec.

9.1.2 Gradual decrease in the eligibility age under the Shelter Allowance Program from 55 to 50

The Shelter Allowance Program provides financial assistance to families with children and people 55 or over with low incomes who allocate too large a part of their budget to paying rent.

- The assistance can reach $80 a month ($960 a year) and is not taxable.
- The allowance takes into account the number of people in the household, the type of household, household income and the monthly rent.

From October 1, 2008 to September 30, 2009, approximately 110 000 households received allowances under the program. The allowances paid totalled $74 million, or an average of approximately $670 a year per household.

In the 2011-2012 Budget, the government will render single people and couples without children, aged 50 to 54, eligible for the program. The eligibility age will be lowered gradually over five years, one year at a time, on October 1 each year, at the time of the annual re-evaluation of the allowance.

TABLE E.30

Eligibility age under the Shelter Allowance Program for single people and couples without children

	October 2011	October 2012	October 2013	October 2014	October 2015
Eligibility age	54	53	52	51	50

This improvement will enable more households in a situation of poverty to receive financial assistance, by reducing the share of their income allocated to paying rent.

To that end, the funding of the Ministère des Affaires municipales, des Régions et de l'Occupation du territoire will be increased by $1.1 million for 2011-2012, $3.4 million for 2012-2013 and $5.7 million for 2013-2014. The funding for 2011-2012 will be drawn from the Contingency Fund.

When fully implemented, the improvement will represent an annual cost of $11.4 million for the Québec government and will benefit some 17 000 additional households.

9.1.3 Improvement of the Financial Assistance Program for Domestic Help Services

The Financial Assistance Program for Domestic Help Services enables a person to obtain a lower hourly rate for domestic help services provided by a recognized social economy business.

The maximum reduction is $11 for each hour of services provided to people eligible for the program, and is granted in the form of fixed financial assistance of $4 and maximum variable financial assistance of $7, reduced on the basis of the user's net family income.

Currently, seniors account for 70% of the clientele. Moreover, nearly two-thirds of users have low incomes and, of them, 80% are 65 or over.

To better support the low-income clientele, the 2011-2012 Budget provides for a $1.25 increase in the maximum variable financial assistance, from $7 to $8.25 per hour of services rendered. The maximum assistance will therefore rise from $11 to $12.25 an hour. This improvement will benefit more than 50 000 users.

As of 2011-2012, $4 million a year will be set aside for the Ministère de la Santé et des Services sociaux for the improvement of the program.

9.1.4 Support for community organizations that work with those most in need

To bolster funding for community organizations that work with those most in need in society, the government is announcing additional assistance of $2 million a year from 2011-2012 to 2013-2014.

The targeted organizations are the ones with a food security mission, such as collective kitchens, soup kitchens, food banks and drop-in centres.

To that end, funding of $2 million for each of the years 2011-2012, 2012-2013 and 2013-2014 will be allocated to the Ministère de la Santé et des Services sociaux. The funding for 2011-2012 will be drawn from the Contingency Fund.

9.1.5 An additional $80 million to combat poverty

The 2011-2012 Budget provides for the injection of close to an additional $80 million to combat poverty. This amount will serve, in particular, to:

- build 2 000 new social and community housing units;
- broaden eligibility for the Shelter Allowance Program;
- improve the Financial Assistance Program for Domestic Help Services.

TABLE E.31

Additional amount to combat poverty – 2011-2012 Budget
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total
Investments of $140 million in the construction of 2 000 new social and community housing units	—	2.7	5.8	8.5	7.8	**24.8**
Gradual decrease in the eligibility age under the Shelter Allowance Program from 55 to 50	1.1	3.4	5.7	8.0	10.3	**28.5**
Improvement of the Financial Assistance Program for Domestic Help Services[1]	4.0	4.0	4.0	4.0	4.0	**20.0**
Support for community organizations that work with those most in need	2.0	2.0	2.0	—	—	**6.0**
TOTAL	**7.1**	**12.1**	**17.5**	**20.5**	**22.1**	**79.3**

[1] The amounts will be set aside at the Ministère de la Santé et des Services sociaux for the funding of the measure.

10. CHOOSING SUSTAINABLE DEVELOPMENT

For several years, the Québec government has prioritized sustainable development with a long-term vision that takes into account the inseparableness of the environmental, social and economic dimensions of development activities.

In 2012, Québec will be one of the rare territories in North America to reduce its greenhouse gas (GHG) emissions by 6%. In so doing, Québec will comply with its share of the Kyoto Protocol requirements. For the future, we have set a very ambitious goal: a 20% reduction in our GHG emission by 2020.

The government also undertook to ensure that protected areas account for 12% of Québec's territory by 2015. A little over two-thirds of that objective has been attained.

Over and above these commitments, sustainable development holds highly promising prospects for industrial development (e.g. clean technology, energy efficiency, manufacture of transportation equipment). By becoming leaders in sustainable development, we give value added to our products.

☐ Investments to support sustainable development

To support Québec's efforts of the past several years to build a green and prosperous economy, the 2011-2012 Budget provides for investments of $111 million over five years. These investments will make it possible to:

- accelerate the arrival of electric vehicles by:
  - implementing a new rebate program for the purchase and leasing of electric vehicles;
  - temporarily increasing the tax credit for the acquisition or leasing of a new green vehicle;
- foster the development of biofuels by:
  - introducing a tax credit as an incentive to develop second-generation ethanol from forest biomass;
  - implementing a support program for the improvement of first-generation ethanol production processes;
- develop solar power by funding projects to generate operational solar energy in the commercial and residential sectors;
- accelerate the development of the Route verte through additional financial support;
- acquire knowledge of groundwater to enable environment-friendly resource development.

TABLE E.32

Cost to the government of sustainable development measures
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total
Acceleration of the arrival of electric vehicles						
- New purchase rebate program for the acquisition of electric vehicles and charging stations[1]	1.7	7.4	10.0	14.6	16.3	**50.0**
- Temporary increase in the tax credit for the acquisition or leasing of a new green vehicle	0.8	—	—	—	—	**0.8**
Promotion of fuel ethanol development						
- Introduction of a tax credit for cellulosic ethanol production	—	5.0	5.0	5.0	5.0	**20.0**
- Support for the improvement of first-generation ethanol production processes	2.0	2.0	2.0	2.0	—	**8.0**
Development of solar power						
- Funding of pilot projects using operational solar energy[1]	3.5	3.5	—	—	—	**7.0**
Development and maintenance of the Route verte	4.0	4.0	4.0	4.0	4.0	**20.0**
Better knowledge of groundwater	1.0	2.0	2.0	0.5	—	**5.5**
TOTAL	**13.0**	**23.9**	**23.0**	**26.1**	**25.3**	**111.3**

[1] These measures will be financed through the Green Fund .

10.1 Accelerating the arrival of electric vehicles

Electric vehicles will soon arrive on the market and should comprise an increasing share of Québec's automobile fleet. Québec has all the assets necessary to prioritize electric transportation and reap the resulting benefits.

Québec generates enough hydroelectricity, a form of clean energy it can produce efficiently with a reliable network. Given its dynamic and productive research environment, the province also has the profile to make its mark in the emerging niche of electric vehicle and components development.

By playing the electric transportation card, Québec is taking the right path for stepping up its GHG emission reduction efforts, as the transportation sector is one of the largest contributors to the increase in emissions. It also undertakes to develop its expertise in a promising industrial sector that creates wealth and jobs, in addition to promoting the development of one of our own natural resources. Accordingly, Québec has every interest in implementing the means to accelerate the arrival of electric vehicles on its territory.

10.1.1 Tabling of an electric vehicle action plan

In his inaugural address of February 23, the Premier of Québec reiterated the government's commitment to presenting an electric vehicle action plan. The plan will include concrete actions for preparing Québec for the arrival of this type of vehicle.

The content of the action plan will be unveiled soon by the Minister of Natural Resources and Wildlife. Through this initiative, the government seeks to accelerate the arrival in Québec of the new generations of electrical vehicles with more advanced technology.

10.1.2 Replacement of the tax credit for the acquisition or leasing of a new green vehicle by a purchase rebate program

The government took the initiative of supporting users of low-emission vehicles by offering, as of January 1, 2009, a tax credit for the purchase or leasing of a new green vehicle. Consumers receive tax assistance of up to $8 000 for an all-electric vehicle. The tax credit was to have applied to vehicles purchased or leased before January 1, 2016.

However, consumers must often wait until they fill out their income tax return to receive the tax assistance for the vehicle chosen. Consequently, they assume the difference between the cost of the vehicle chosen and a conventional gas-fueled vehicle for more than a year in some cases. That can sometimes be a factor in a consumer's decision to buy or not.

For more immediate assistance to consumers who wish to acquire an electric vehicle, the 2011-2012 Budget provides for the introduction of a rebate program for the purchase or leasing of a new electric vehicle as of January 1, 2012. This measure will be an integral part of the electric vehicle action plan.

The new purchase rebate program, under the Ministère des Ressources naturelles et de la Faune, will replace the existing tax credit for the acquisition or leasing of a new green vehicle. It will also provide for assistance for electric vehicle users who wish to acquire charging stations.

☐ A $50-million rebate over five years

In total, $50 million in financial assistance will be granted to consumers who acquire electric cars between January 1, 2012 and December 31, 2015:

- $42.8 million for the purchase or leasing of electric vehicles;
- $7.2 million for the acquisition and installation of charging stations.

TABLE E.33

Financial assistance under the rebate program for the acquisition of electric vehicles and charging stations

(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total
Electric vehicles	1.6	6.9	8.8	12.0	13.5	**42.8**
Charging stations	0.1	0.5	1.2	2.6	2.8	**7.2**
TOTAL	**1.7**	**7.4**	**10.0**	**14.6**	**16.3**	**50.0**

Source: Ministère des Ressources naturelles et de la Faune.

☐ Application details of the purchase rebate program

The vehicles giving entitlement to the new purchase rebate program will be vehicles whose engine type includes a form of electrification, namely:

- all-electric vehicles (other than low-speed vehicles);
- plug-in hybrid electric vehicles;
- low-speed electric vehicles;
- non-plug-in hybrid vehicles with a consumption rating below 5.27 litres/100 kilometres—the vehicles currently covered by the tax credit.

Types of vehicles for which a purchase rebate will be granted

Hybrid vehicles currently on the market (e.g. Toyota Prius, Honda Civic Hybrid)

The operation of a hybrid vehicle combines at least two different sources of energy. Generally, the two sources are gasoline and electricity, which means the vehicle is powered by two engines, one thermal and the other, electric.

Hybrid vehicles currently on the market are powered strictly by gasoline. However, they have the capacity to store electricity in a battery when in operation. The battery assists the thermal engine, more specifically for driving at variable speeds, most often in urban areas.

Plug-in hybrid electric vehicles (e.g. Chevrolet Volt)

Unlike the hybrid vehicles on the market, the batteries of hybrid electric vehicles can be charged if plugged into an electrical outlet. These vehicles can operate in all-electric mode over distances in a typical day's driving if their battery is capable of storing enough power.

In certain cases, for example the Chevrolet Volt, the thermal gasoline engine serves primarily to power the electric engine for the purpose of continuing in electric mode, even when the electricity has been used up, thereby increasing the vehicle's range.

All-electric vehicles (e.g. Nissan Leaf, Mitsubishi i MIEV)

All-electric vehicles are powered by a single type of energy—electricity. Therefore, when the power stored in their battery runs out, they must be plugged into an electrical outlet to charge.

Low-speed vehicles

Low-speed vehicles are powered solely by an electric engine. However, they are designed for speeds of over 32 kilometres/hour without exceeding 40 kilometres/hour. The vehicles are recognized by Transport Canada, but are not subject to standards as stringent as other passenger vehicles. Given their characteristics, these vehicles are in limited use. The pilot project carried out by the Ministère des Transports du Québec allows the use of the vehicles on certain public roads.

- **Plug-in all-electric and hybrid electric vehicles**

The maximum support under the purchase rebate is $8 000, as in the case of the tax credit. However, for plug-in all-electric and hybrid electric vehicles, the amounts will be modulated differently. The amount granted to consumers will be determined on the basis of the battery capacity of the vehicle purchased.

This approach is intended to take into account that the higher cost of an electric vehicle is due in large part to its battery: the greater the battery's capacity, the more expensive the car will be. Furthermore, a higher battery capacity reduces the environmental impact of the vehicle, because it has a longer range, enabling it to operate longer in all-electric mode.

— For example, in 2012, the table below will be used to determine the amount of assistance allocated for the purchase of a plug-in all-electric or hybrid electric vehicle.

TABLE E.34

Purchase rebate for a plug-in all-electric or hybrid electric vehicle – 2012

Battery capacity (kWh)	**Purchase rebate** ($)	**Battery capacity** (kWh)	**Purchase rebate** ($)	**Battery capacity** (kWh)	**Purchase rebate** ($)
4	5 000	9	6 154	14	7 308
5	5 231	10	6 385	15	7 538
6	5 462	11	6 615	16	7 769
7	5 692	12	6 846	17 or over	8 000
8	5 923	13	7 077		

Source: Ministère des Ressources naturelles et de la Faune.

Considering the vehicles that should soon be on the Québec market,[10] the buyer of a:

— Chevrolet Volt or Mitsubishi i MiEV should receive a rebate of $7 769;

— Nissan Leaf or Ford Focus should receive a rebate of $8 000.

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[10] According to the information currently available, the Chevrolet Volt and Mitsubishi i MiEV are equipped with a 16-kWh battery and the Nissan Leaf and Ford Focus 17-kWh battery.

Low-speed electric vehicles, and hybrid vehicles

The government will continue to offer financial support for the purchase and leasing of low-speed electric vehicles. However, because these vehicles meet only limited needs and their motors use familiar, older technology, the amounts granted with respect to the vehicles will be reduced, from $1 000 in 2012 and 2013, to $800 in 2014 and $600 in 2015.

Lastly, the support for purchasers and lessees of hybrid vehicles whose gas consumption is less than or equal to 5.27 litres/100 kilometres will be maintained at the level planned for the tax credit: $1 000 in 2012 and $500 in 2013.

TABLE E.35

Comparaison of assistance under the tax credit and the purchase rebate
(dollars)

	2012	2013	2014	2015
All-electric vehicles (e.g. Nissan Leaf, Mitsubishi I MIEV)				
Before 2011-2012 Budget: tax credit	8 000	6 000	4 000	2 000
After 2011-2012 Budget: purchase rebate	5 000 to 8 000	4 500 to 8 000	3 000 to 4 000	2 000 to 3 000
Plug-in hybrid electric vehicles (e.g. Chevrolet Volt)				
Before 2011-2012 Budget: tax credit[1]	2 250	1 500	750	—
After 2011-2012 Budget: purchase rebate	5 000 to 8 000	4 500 to 8 000	3 000 to 4 000	2 000 to 3 000
Low-speed vehicles (LSVs)				
Before 2011-2012 Budget: tax credit	4 000	3 000	2 000	1 000
After 2011-2012 Budget: purchase rebate	1 000	1 000	800	600
Hybrid vehicles (e.g. Toyota Prius, Honda Civic Hybride)				
Before 2011-2012 Budget: tax credit	1 000	500	—	—
After 2011-2012 Budget: purchase rebate	1 000	500	—	—

[1] To give entitlement to the amount, the vehicle's gasoline 0.01 litres/100 km and 2.99 litres/100 km, or the equivalent in diesel fuel.
Sources: Ministère des Ressources naturelles et de la Faune and Ministère des Finances du Québec.

■ Charging stations

Most homes in Québec are equipped with a 120-volt outdoor electrical socket. It can take a considerable amount of time to recharge plug-in electric and hybrid electric vehicles at such an outlet, which could deter some motorists from opting for such vehicles.

Charging stations of 240 volts that will cut charge times in half will be available on the market. However, users will have to defray additional costs for more powerful charging stations.

So that users can take advantage of faster charging, the 2011-2012 Budget provides that consumers who acquire or lease plug-in electric or hybrid electric vehicles entitling them to the purchase rebate will also be able to receive a rebate on the purchase and installation of a home charging station.

The charging station rebate will correspond to 50% of the total cost to purchase and install the station, to a maximum of $1 000 in 2012. This amount will be lowered gradually, to $800 in 2014 and $600 in 2015.

☐ A program that will benefit 15 000 purchasers and lessees

The purchase rebate will be granted to the first 5 000 purchasers or lessees of hybrid vehicles and the first 10 000 purchasers or lessees of plug-in all-electric or hybrid electric vehicles. The program will end when the target number of purchasers or lessees is reached, or no later than December 31, 2015, as was the case with the tax credit for the acquisition or leasing of a new electric vehicle.

In addition to individuals and businesses, which could claim the tax assistance, non-profit organizations and municipalities will be eligible for the purchase rebate.

☐ Temporary improvement to the tax credit for the acquisition or leasing of a new green vehicle

The tax credit for the acquisition or leasing of a new green vehicle applied in respect of vehicles purchased in 2011 corresponds to:

- $1 500 for vehicles with consumption of 3.00 to 5.27 litres of gasoline/100 kilometres, which mainly correspond to hybrid vehicles;
- $3 000 for vehicles with consumption of 0.01 to 2.99 litres of gasoline/100 kilometres, which mainly correspond to rechargeable hybrid electric vehicles;
- $4 000 for low-speed vehicles restricted-circulation vehicles consuming 0.00 litre of gasoline/100 kilometres.
- $8 000 for other vehicles with consumption of 0.00 litres of gasoline/100 kilometres, which mainly are fully electric vehicles;

The amounts attributed to purchasers and lessees of rechargeable hybrid electric vehicles will be greater once the purchase rebate is in place, ranging from $5 000 to $8 000. For example, the amount stipulated for the Chevrolet Volt, which is expected to become available on the Québec market during 2011, will be $7 769. In view of the difference between the amounts granted under the tax credit and the purchase rebate for the same vehicle, consumers could decide to delay their decision to purchase until 2012.

To enable Quebecers to acquire rechargeable hybrid electric vehicles or entirely electric vehicles as soon as they arrive on the market, the government is announcing that it will improve the tax credit for the acquisition or leasing of a new green vehicle regarding certain vehicles acquired after the day of the 2011-2012 Budget Speech and before January 1, 2012.

Accordingly, taxpayers who purchase a vehicle whose gasoline consumption is between 0.01 litre/100 kilometres and 2.99 litres/100 kilometres will henceforth receive a tax credit of $7 769 rather than $3 000. Taxpayers will accordingly be able to receive enhanced tax assistance until December 31, 2011.

Consumers who, during the period of application of the enhancement, acquire vehicles in the other categories of consumption eligible for the tax credit will receive the stipulated assistance.

☐ Elimination of the existing tax credit in 2012

Since the purchase rebate program will replace the existing tax credit for vehicles purchased or leased as of January 1, 2012, the tax credit will be eliminated at that time. Accordingly, only vehicles purchased or leased before January 1, 2012 will give rise to the tax credit.

To partially fund the new purchase rebate program for electric vehicles, the government will allocate the residual amounts that would have been paid as tax credits for 2012 to 2015 to the Green Fund. In this regard, a legislative amendment to the *Act respecting the ministère du Développement durable, de l'Environnement et des Parcs*, which instituted the Green Fund, will be required to allocate a new revenue source to it to fund the purchase rebate.

Accordingly, $21.1 million over five years will be allocated to the Green Fund, i.e. $6.4 million in 2012-2013, $6.5 million in 2013-2014, $5.4 million in 2014-2015 and $2.8 million in 2015-2016.

TABLE E.36

Transfer to the Green Fund of the residual amounts stipulated as tax credits for the acquisition or leasing of a new green vehicle
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total
Tax credit savings arising from its elimination	—	− 6.4	− 6.5	− 5.4	− 2.8	**− 21.1**
Transfer to the Green Fund	—	6.4	6.5	5.4	2.8	**21.1**
IMPACT ON THE BUDGETARY BALANCE	**—**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

The purchase rebate will have total funding of $50 million over five years drawn from the Green Fund, including:

- the amount of $21.1 million transferred as a result of the elimination of the tax credit;
- new amounts totalling $28.9 million over five years, i.e. $1.7 million in 2011-2012, $1 million in 2012-2013, $3.5 million in 2013-2014, $9.2 million in 2014-2015 and $13.5 million in 2015-2016.

TABLE E.37

Financing of the purchase rebate by the Green Fund
(millions of dollars)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	Total
Amounts transferred as a result of the elimination of the tax credit	—	6.4	6.5	5.4	2.8	**21.1**
Use of a portion of the Green Fund reserved for the Ministère des Ressources naturelles et de la Faune and the Ministère du Développement durable, de l'Environnement et des Parcs	1.7	1.0	3.5	9.2	13.5	**28.9**
TOTAL	**1.7**	**7.4**	**10.0**	**14.6**	**16.3**	**50.0**

10.2 Foster the development of ethanol fuel

Rising global demand for oil products, the decline in reserves of hydrocarbons and growing concerns for the protection of the environment have prompted many countries to foster the development of renewable fuels.

In the *Québec Energy Strategy 2006-2015*, the government announced its objective of achieving 5% ethanol, on average, in gasoline sales by 2012. Since December 15, 2010, new federal regulations require 5% ethanol content, on average, in all gasoline sold in Canada.

In Québec, the ethanol demand to reach this objective is estimated at roughly 450 million litres per year. Existing ethanol production in Québec, using first-generation technology and produced from kernel corn, is roughly 150 million litres per year. Accordingly, there is a shortfall in Québec's ethanol production capacity estimated at 300 million litres.

To fill this gap, Québec intends to foster the development of second-generation ethanol production technologies, i.e. those that can produce ethanol using cellulosic material extracted from farm and forest residues, treated wood residues, urban household garbage and residual materials produced by industries, commercial establishments and institutions, or by construction, renovation and demolition activities.

The government intends to facilitate the transition of existing ethanol production to second-generation technology.

To foster the development of ethanol production in Québec, the government is announcing the implementation of:

— a new refundable tax credit for cellulosic ethanol production;[11]

— a first-generation ethanol fuel production efficiency improvement support program.

10.2.1 Introduction of a refundable tax credit for cellulosic ethanol production

In the April 21, 2005 Budget Speech,[12] a refundable tax credit was introduced for ethanol production carried out in Québec.

The maximum amount of this tax credit is 18.5 cents per litre where the monthly average price of a barrel of crude oil is less than US$31. Where the monthly average price of a barrel of crude oil is between US$31 and US$65, the assistance is gradually reduced. No assistance is provided where the monthly average price of crude oil exceeds US$65.

Since this tax credit was implemented, the high price of crude oil has meant that the government has paid very little assistance to ethanol producers.

As mentioned in the *Québec Energy Strategy 2006-2015,* in the future, Québec intends to foster the development of second-generation production technologies. Since the cost of production of second-generation ethanol is higher than that of first generation, the government must review its financial support for this type of renewable fuel.

Second-generation production of ethanol that is currently commercially exploitable makes use of a thermochemical process while first-generation ethanol is produced from a fermentation process.

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[11] For more details, see subsection 1.4.1 of Section J, p. C.51 for more information on these issues of the Budget Plan.

[12] MINISTÈRE DES FINANCES DU QUÉBEC, *2005-2006 Budget – Additional Information on the Budgetary Measures*, April 21, 2005, Section 1, p. 91.

Accordingly, the government is announcing the implementation of a new refundable tax credit for cellulosic ethanol production. This credit, of up to 15 cents per litre, will be granted until March 31, 2018.

To avoid payment of public assistance in the event of a significant increase in the price of ethanol, which would enhance the industry's profitability, the amount of the refundable tax credit for the production of cellulosic ethanol will reduce gradually as the price of this product rises.

To be eligible, the ethanol must in particular be produced from eligible renewable materials and exclusively using a thermochemical process.

10.2.2 Support for the improvement of first-generation ethanol fuel production efficiency

Existing ethanol production in Québec, using first-generation technology, is roughly 150 million litres per year. The government wants to optimize the processes of this production and facilitate its transition to second-generation technologies.

More specifically, the first-generation ethanol fuel production efficiency improvement support program will seek to fund investments and studies to:

- improve the yield, energy efficiency and environmental performance of first-generation ethanol fuel production equipment;
- facilitate the incorporation of new equipment and processes in existing first-generation installations to foster their transition to second-generation technologies.

The basis of reference for measuring the improvement in efficiency and environmental performance will be the average yield, average consumption by form of energy, the quantity of raw material used and the greenhouse gas (GHG) emissions generated.

Moreover, to measure the change in environmental performance over time, the Ministère du Développement durable, de l'Environnement et des Parcs will develop, over the coming months, a method of quantifying GHG emissions based on lifecycle analysis, resulting from the introduction of biofuels produced in Québec in the transportation field.

The details of the program will be specified at a later date by the Minister of Natural Resources and Wildlife.

To that end, additional annual funding of $2 million from 2011-2012 to 2014-2015 will be granted to the Ministère des Ressources naturelles et de la Faune. The funding for 2011-2012 will be drawn from the Contingency Fund.

10.3 Developing solar power

10.3.1 Financing for pilot projects using operational solar energy

In addition to having a solid skills and resource base in the solar energy sector, Québec receives enough sun a year to develop solar power, in particular through businesses and research centres. However, there are few operational solar projects in Québec.

In this context, the 2011-2012 Budget provides for a $7-million investment to finance pilot projects using operational solar energy.

These pilot projects will be a technology window that will give new insight into solar energy production in Québec in the:

- commercial and institutional sectors, for example through solar rooftop projects for buildings with large roofs, such as school buildings and shopping centres;
- residential sector, for example through residential development projects like ecovillages.

This measure is in keeping with previous budget commitments such as the $8-million investment over two years announced in 2009-2010 for the development of green energy technologies, such as the manufacture of photovoltaic cells used in solar panels.

Moreover, this measure will support the 2006-2012 action plan on climate change. Through solar energy development, it will be possible to:

- develop a renewable energy source to boost our energy self-sufficiency;
- support our efforts toward a 20% reduction in GHG emissions by 2020, by promoting less reliance on fossil fuels.

The measure will be financed through the Green Fund. The details of the measure will be announced at a later date by the Minister of Sustainable Development, Environment and Parks.

10.4 Developing linkages between the Route verte and municipal networks

The Route verte is a bikeway currently covering almost 4 700 kilometres and linking the regions of Québec. It is a major infrastructure for sustainable tourism and is recognized by National Geographic as one of the best bikeways in the world.

Banking on the development of the Route verte, the government is announcing the creation of the Véloce program to step up the development of cycling infrastructure in Québec. Through the program, it will be possible, in particular, to:

- plan and create urban network linkages with the Route verte;
- upgrade existing bicycle paths in urbanization perimeters;
- build structures enabling cyclists to cross natural or structural barriers.

The government is also announcing the enhancement of the financial assistance program for the maintenance of the Route verte. The maximum government subsidy will be increased from $1 000/km to $1 500/km as of 2011-2012.

- In that regard, the cap on eligible maintenance expenses, shared 50%-50% by the government and by municipal and regional organizations, will be raised from $2 000/km to $3 000/km.

To that end, additional funding of $4 million a year will be allocated to the Ministère des Transports as of 2011-2012. The funding for 2011-2012 will be drawn from the Contingency Fund.

10.5 Learning more about groundwater

In the 2002 Québec Water Policy, the Québec government undertook to inventory Québec's major aquifers within the following 15 years.

In the 2008-2009 Budget Speech, the government announced that it would allocate $13.5 million over five years toward greater knowledge of Québec's major aquifers, particularly in the St. Lawrence lowlands. That announcement was in keeping with commitment 5 of the Québec Water Policy and made it possible to learn more about groundwater in Québec, in particular through the implementation of a program for the acquisition of knowledge of Québec groundwater.

The overall picture of groundwater knowledge must give a regional image of the resource and provide answers to fundamental questions like the origin and destination of groundwater flow, the nature of the geological formations containing it, the quantities available for sustainable development and the water's vulnerability (quantity and quality) in relation to human activity.

To continue and improve the acquisition of knowledge of groundwater on the municipal territory of southern Québec, the 2011-2012 Budget announces an additional investment of $5.0 million over three years, including $1.0 million as of 2011-2012.

To that end, funding of $1.0 million will be granted to the Ministère du Développement durable, de l'Environnement et des Parcs in 2011-2012. The funding will be drawn from the Contingency Fund.

CELEBRATING QUÉBEC CULTURE

11. MAINTAINING A DYNAMIC CULTURE

The year 2011 marks the 50th anniversary of the creation of the Ministère de la Culture, des Communications et de la Condition féminine. The government wishes to commemorate the event in a special way, given the key role played by the department in the series of social, economic and cultural transformations brought about by the Quiet Revolution.

Over the 50 years, the government has vigorously supported the activities of businesses in the cultural sector and organizations dedicated to the development of Québec culture. Thus, many initiatives were implemented to provide financial support to the various art forms.

These initiatives fostered the emergence of artists whose drive, tenacity and originality have enriched Québec's cultural identity and given rise to a dynamic culture industry that contributes actively to Québec's economic development.

So that the industry continues to develop and contribute to Québec's growth, it must take up major challenges regarding:

- the development and promotion of more Québec cultural products abroad;
- the adoption by artists of digital technologies for both the production and the diffusion of their works;
- infrastructure preservation and upgrading at the Musée des beaux-arts de Montréal.

With the 2011-2012 Budget, the government will earmark $19.7 million over three years to implement measures that will enable the cultural sector to meet these challenges.

TABLE E.38

Areas of intervention for maintaining a dynamic culture
(millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
Promoting Québec culture on the world stage	1.6	2.6	3.5	**7.7**
Encouraging the digital shift in the culture industry	3.0	3.0	3.0	**9.0**
Preserving and upgrading infrastructure at the Musée des beaux-arts de Montréal	1.0	1.0	1.0	**3.0**
TOTAL	**5.6**	**6.6**	**7.5**	**19.7**

11.1 Promoting Québec culture on the world stage

In an era of trade globalization, the interest of the various peoples in original cultural productions is on the rise in several countries. That interest holds considerable opportunities for Québec cultural businesses.

These potential markets must be properly targeted to optimize the visibility of Québec cultural products. Developing more cultural products for an international audience will generate additional revenues that can be reinvested in the creation of new production activities.

Developing the presence of Québec artists and cultural products on the world stage is taking place in an increasingly competitive environment.

In this context, Québec must make sure it is better equipped to more efficiently support cultural production for international markets. This involves the introduction of new sources of funding, including private sources.

To support the activities of cultural businesses seeking to penetrate international markets, the government intends to implement the following three initiatives:

- creation of a $100-million fund to support major international cultural products. The fund will finance export projects with a high return potential, generating substantial economic benefits for Québec;
- payment of $3 million in additional assistance over three years to support diffusion outside Québec of works in the field of arts and letters;
- $10-million recapitalization of the Fonds d'investissement de la culture et des communications, through an additional contribution of $3.3 million from the Société de développement des entreprises culturelles (SODEC) and of $6.7 million from the Fonds de solidarité FTQ.

11.1.1 Capital Culture Québec Fund: $100 million for major international cultural projects

The development of international markets represents real growth potential for businesses in Québec's cultural sector. However, conquering these markets is a major challenge requiring substantial investments to support the more sophisticated business plans such presence on foreign markets requires.

To support the development of cultural businesses on the international stage, the government is announcing the implementation of the Capital Culture Québec fund.

☐ Mission and capitalization of the fund

The mission of the fund will be to increase and diversify the supply of capital available to Québec's exporting cultural businesses. It will thus contribute to remedying the lack of financing needed to carry out large-scale cultural productions.

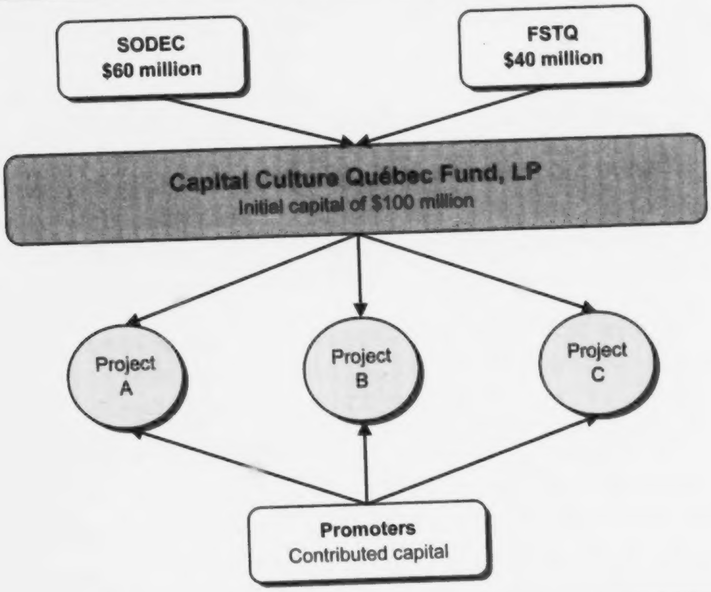
The fund will be capitalized by contributions of $60 million by the government and $40 million by the Fonds de solidarité FTQ.

The contributions will be paid to the Capital Culture Québec fund, a limited partnership that will be managed by an entity with solid experience in investment in the cultural sectors and in financing structures for project targeting the international market.

The government contribution will be made through SODEC. To that end, the government will provide it with a loan or an advance, whose terms and conditions will be agreed by the Ministère des Finances, the Ministère de la Culture, des Communications et de la Condition féminine and SODEC.

CHART E.16

Illustration of the structure of the Capital Culture Québec Fund


SODEC
$60 million
FSTQ
$40 million
Capital Culture Québec Fund, LP
Initial capital of $100 million
Project A
Project B
Project C
Promoters
Contributed capital

☐ Duration of the fund and investment policy

The fund will last for eight years and may be extended to ten years with the approval of the partners. The fund's activities will focus, though not exclusively, on the following cultural sectors:

- the production of shows;
- book publishing and the purchase and sale of publishing rights;
- film and television production, including coproduction, up to 20% of the fund's assets;
- multiplatform productions;
- the production of sound recordings and the purchase and sale of catalogues.

These activities will target major projects intended for international markets. The investment projects will be chosen based on their profit potential for the fund's investors, according to realistic conditions that reflect the specific level of risk for each project. Moreover, the selection must also consider the development potential of the projects on the international stage and the extent of their economic and tax spinoffs for Québec's economy.

The fund's minimum financial participation will be $2 million per project, except for the film production sector, where this threshold will be $5 million per project. The fund's participation in an eligible project may not exceed 40% and will be conditional on a significant capital outlay by the promoters involved.

The fund will target on a priority basis projects of Québec producers and creators wishing to invest in the development of foreign markets. However, the fund may also support foreign productions carried out in Québec, provided they are produced in order to be commercialized internationally and offer an attractive potential return while generating substantial economic spinoffs for Québec.

The fund will be positioned to complement the Fonds d'investissement de la culture et des communications (FICC) and the Financière des entreprises culturelles (FIDEC). It will differ from the latter two entities in the size of its investments in projects and the preponderance of exporting companies in its portfolio.

Thanks to this fund, our businesses will be able to continue their efforts to diversify markets and thus contribute to the international recognition of our artists and their creations.

11.1.2 Assistance for diffusion outside Québec of works in the arts and letters field

The mandate of the Conseil des arts et des lettres du Québec (CALQ) is to support the creation and production of works associated with the performing arts, visual arts, media arts, arts and crafts, and literature, and promote the diffusion of such works in Québec, Canada and abroad.

Thus, CALQ enables individuals, businesses, and cultural and artistic organizations to improve their ability to export and penetrate international markets.

Considering the importance that developing new markets and accentuating diffusion abroad holds for Québec artists, the government wishes to strengthen the CALQ's mission in that regard.

To that end, additional funding of $3 million over three years, that is, $1 million a year as of 2011-2012, will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine. The funding for 2011-2012 will be drawn from the Contingency Fund.

11.1.3 Recapitalization of the Fonds d'investissement de la culture et des communications

Created in 1996, the Fonds d'investissement de la culture et des communications (FICC) is a limited partnership that invests in businesses dedicated to the creation, production and diffusion of cultural content, as well as in technical and technological support companies that foster the development and quality of creative production.

From 1996 to 2010, the FICC invested $49 million in 111 projects implemented by 55 partner businesses. In contributing to the funding of the projects, the FICC participated in the retention or creation of over 1 552 direct jobs.

The FICC currently has capital of $30 million, of which $10 million is from the Société de développement des entreprises culturelles (SODEC) and $20 million, from the Fonds de solidarité FTQ.

The Québec government, through SODEC, will take part in a new round of capitalization of the FICC, in the amount of $10 million, in collaboration with the Fonds de solidarité FTQ. The additional capitalization will come from a $3.3-million contribution from SODEC, and a $6.7-million contribution from the Fonds de solidarité FTQ, thus bringing the FICC's capital to $40 million. To that end, an advance of $3.3 million will be granted to SODEC.

Organizations that participate in the FICC's mission will be invited to participate in its capitalization.

11.2 Encourage the digital shift of the cultural industry

Digital technologies improve and facilitate the process of creating, producing, disseminating and consuming artistic products. Accordingly, they offer many opportunities for all players in Québec's cultural community.

These technologies present many challenges, because they fundamentally change existing business models regarding the production and distribution of cultural products. Similarly, they could enable new partnerships involving artists, producers and distributors of these works to take shape.

In this context, the Minister of Culture, Communications and the Status of Women has mandated CALQ and SODEC to develop action proposals concerning the impact of digital technologies on the marketing of the arts and culture.

The eventual digital strategy that will be formulated by the Ministère de la Culture, des Communications et de la Condition féminine will seek to foster the strategic and efficient advancement of the various cultural domains in the digital space and propel Québec to a leadership position in this regard. The final report on these initiatives will be tabled during 2011.

While this report will shed new and important light on the main issues, cultural businesses must immediately position themselves and adapt to these changes in technology. Accordingly, the 2011-2012 Budget stipulates investments of $9 million over three years to support businesses facing these challenges, while enabling them to benefit from the opportunities these technologies represent.

The assistance will support:

- the digital distribution of cultural works in the film, music and variety sectors, as well as arts and letters, in order to consolidate market shares;
- the improvement of training programs of the Institut national de l'image et du son, to adapt them to the new digital environment;
- the book industry, with the objective of increasing the offering of Québec e-books on all the new platforms available.

TABLE E.39

Measures to encourage the digital shift of the cultural industry

(millions of dollars)

	2011-2012	2012-2013	2013-2014	Total
Support for the digital distribution of cultural works				
Financial assistance for the digitization of movie theatres	0.8	0.8	0.8	**2.4**
Additional assistance for the music and variety sector	0.5	0.5	0.5	**1.5**
Creation of a digital technologies fund in the field of arts and letters	0.5	0.5	0.5	**1.5**
Additional assistance for the Institut national de l'image et du son	0.5	0.5	0.5	**1.5**
Assistance for the digitization of existing books	0.5	0.5	0.5	**1.5**
Subtotal	**2.8**	**2.8**	**2.8**	**8.4**
Broadening of the tax credit for book publishing to digital version publishing expenses of books to be published	**0.2**	**0.2**	**0.2**	**0.6**
TOTAL	**3.0**	**3.0**	**3.0**	**9.0**

11.2.1 Support for the digital distribution of cultural works

❑ Financial assistance for the digitization of movie theatres

The advent of digital technologies is revolutionizing the way in which movies are shown. However, the switch from 35-mm projection to digital projection entails significant additional costs for movie theatre operators. The average overall cost associated with the conversion to digital technologies is estimated to be about $100 000 per screen.

Conversion costs can be more readily absorbed by operators of movie theatres that are part of big film distribution companies. The same is not true for small, independent movie theatre operators located in areas of low population density. Fewer moviegoers and limited financial resources mean that these operators lag far behind in converting their equipment and could be hit hard by their inability to procure digital technologies.

The government considers it important to maintain the operation of movie theatres throughout Québec. In this context, a temporary assistance program will be created to consolidate the position of independent movie theatre operators with 10 screens or less, located in localities of fewer than 50 000 inhabitants outside the Montréal, Québec and Gatineau metropolitan census areas.

Additional funding of $2.4 million over three years, that is, $800 000 a year as of 2011-2012, will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine. The funding for 2011-2012 will be drawn from the Contingency Fund.

❑ Additional assistance for the music and variety sector

One of the components of the SODEC-administered support program for businesses in the music and variety sector provides financial assistance to businesses seeking to implement innovative strategies for the development and delivery of music content for new media like the Internet.

However, such strategies are developed in a highly competitive environment where there is an abundant supply of digital music content in English. In this context, the Québec recording industry is faced with a major challenge. For example, it should be mentioned that the sales share of Québec digital music content still does not offset the decline in record sales, which fell by 35% in Québec from 2005 to 2010.

That being the case, Québec businesses must completely rethink their business model in order to better develop the supply of Québec content and improve its accessibility on the various platforms.

To assist the music and variety industry in adapting more rapidly to digital technologies, additional funding of $1.5 million over three years, that is, $500 000 a year as of 2011-2012, will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine. The funding for 2011-2012 will be drawn from the Contingency Fund.

❑ Creation of a digital technologies fund in the field of arts and letters

The development of digital technologies fosters the visibility, commercialization and distribution of works of art by reducing the costs typically associated with the use of traditional networks. Consequently, artists, writers and organizations in the field of arts and letters could greatly benefit from these new platforms in diffusing their work, provided digital technologies are accessible to them.

To encourage the use of these technologies, additional funding of $1.5 million over three years, that is, $500 000 a year as of 2011-2012, will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine. The funding for 2011-2012 will be drawn from the Contingency Fund.

This assistance will serve to create a digital technologies fund for financing the setting up of digital networks that will foster the forging of partnerships and the emergence of creation and diffusion projects.

❑ Additional assistance for the Institut national de l'image et du son

The Institut national de l'image et du son enables student designers, screenwriters, authors, directors and producers of audiovisual and multimedia content to learn the different facets of their trade. It also supports working professionals who want to acquire new skills or master new tools.

To better integrate digital technologies into training programs and ensure that they meet the requirements of the audiovisual, communications and entertainment markets, additional financial assistance will be granted to the institute.

Thus, additional funding of $1.5 million over three years, that is, $500 000 a year as of 2011-2012, will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine to enable the institute to remain at the forefront and distinguish itself among the leaders in the sector. The funding for 2011-2012 will be drawn from the Contingency Fund.

❑ Assistance for the digitization of existing books

In recent years, SODEC has supported the Association nationale des éditeurs de livres in creating a digital platform aimed at promoting Francophone literary production as a whole in Québec. The platform enables publishers to store computerized literary works securely and market them over the Internet under the terms of their choice.

SODEC has since added digitization assistance under the assistance program for books and specialized publishing companies. The support enables an increasing number of works to be digitized, converted and put on the digital platform, thereby enhancing Québec's supply of e-books.

To enhance that support, additional funding of $1.5 million over three years, that is $500 000 as of 2011-2012, will be allocated to the Ministère de la Culture, des Communications et de la Condition féminine. The funding for 2011-2012 will be drawn from the Contingency Fund.

11.3 Infrastructure preservation and upgrading at the Musée des beaux-arts de Montréal

The Musée des beaux-arts de Montréal (MBAM) is a private museum that brings culture and tourism in Montréal and the province to a wider audience. Since 2005, the museum has mounted and sent an average of three exhibitions on tour abroad (e.g. Paris, Barcelone, New York, San Francisco, Munich). In 2009-2010, a total of 1 511 000 people visited the museum's collections. To continue to fulfil its mission, the MBAM initiated an expansion project involving, among other things, the construction of a new pavilion to house Québec and Canadian art.

The initial cost of the work had to be revised, in particular because of the enlargement of an underground gallery. The current cost of the work is $32 800 000. The government will contribute an additional $6 375 000 to the MBAM for the completion of the construction of the new pavilion. To ensure debt service funding of the amount, the Ministère de la Culture, des Communications et de la Condition féminine will see its funding raised by $1 million a year. The funding for 2011-2012 will be drawn from the Contingency Fund.

11.4 Growth of the government's contribution to the cultural sector since 2003-2004

Since 2003-2004, the government's contribution to fund activities in the cultural sector has grown remarkably. Indeed, total assistance to artists, cultural businesses as well as organizations dedicated to the development of Québec culture has risen 35.1% between 2003-2004 and 2010-2011, growing from $572 to $773 million.

During the same period:

- the contribution to cultural organizations[13] rose 40.1% and should amount to $341 million in 2010-2011;
- budgetary assistance grew 18.9% and should amount to $238 million in 2010-2011;
- tax assistance increased 50.9% and should reach $194 million in 2010-2011.

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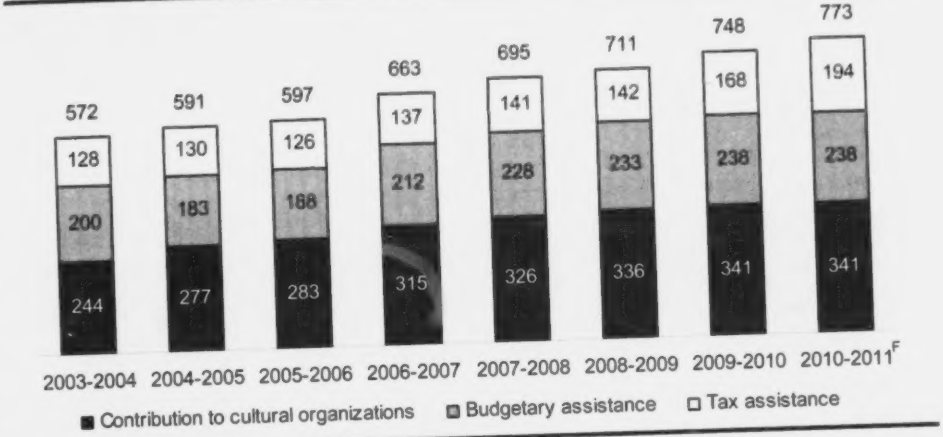
[13] This contribution is used essentially to fund the operating expenses of Société de développement des entreprises culturelles, the Conseil des arts et des lettres du Québec, the Bibliothèque et Archives nationales du Québec, national museums, Télé-Québec, the Conservatoire de musique et d'art dramatique, the Société de la Place des Arts de Montréal, the Société du Grand Théâtre de Québec and the Comité de reconnaissance des associations d'artistes et des associations de producteurs, as well as the debt service of the Ministère de la Culture, des Communications et de la Condition féminine.

CHART E.17

Growth of the government's contribution to the cultural sector
(millions of dollars)



F: Forecast.
Note: Figures may not add up to the totals shown because of rounding.
Sources: Ministère de la Culture, des Communications et de la Condition féminine and Ministère des Finances du Québec.

❑ Significant support for film and television production

The film and television production sector is the main beneficiary of government support in the cultural domain. At almost $211 million for 2010-2011, this amount is up $66 million compared to 2003-2004, representing growth of 45.2%, well ahead of the increase for the cultural industry as a whole (35.1%). This increase is attributable to the many initiatives put in place in recent years in keeping with the government's intent to invest more in this sector.

— In October 2006, the government granted budgetary assistance of $10 million to SODEC to fund more feature films. In February 2007, the government announced the renewal of this assistance.

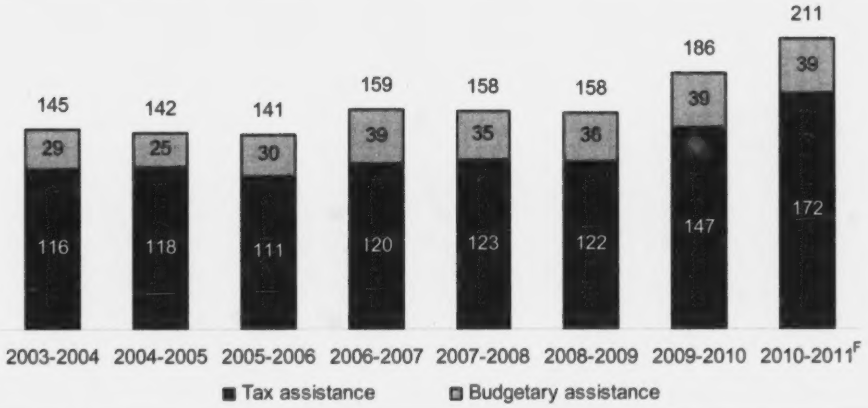
— The tax credit for Québec film and television production was substantially improved in the January 14, 2009 Economic Statement by, among other things, increasing the applicable rates and eliminating the cap on the tax credit that can be claimed for each film or series.

— In June 2009, Québec changed the base of the tax credit for film production services to have the 25% rate apply to all production expenses (all-spend concept). In February 2010, Québec introduced a 20% increase calculated on the labour expenditures (including employer costs) relating to the production of special effects.

All these initiatives show the importance the government places on this sector.

CHART E.18

Growth in government support for film and television production
(millions of dollars)



F: Forecast.
Note: Figures may not add up to the totals shown because of rounding.
Sources: Ministère de la Culture, des Communications et de la Condition féminine and Ministère des Finances du Québec.

OTHER MEASURES IN THE 2011-2012 BUDGET

12. OTHER MEASURES

12.1 In vivo: developing a Québec personalized health care strategy

To support the Québec personalized health care initiative, implemented in 2010, the government is announcing total funding of $20 million by 2015. It is the sixth catalyst project under the Québec Research and Innovation Strategy launched in June 2010.

To that end:

- the Ministère du Développement économique, de l'Innovation et de l'Exportation will provide $10 million of the total amount by 2014-2015, drawn from the amounts already earmarked under;
- additional amounts of $1 million from 2011-2012 to 2013-2014, and $2 million in 2014-2015, will be allocated to the Ministère du Développement économique, de l'Innovation et de l'Exportation. The funding for 2011-2012 will be drawn from the Contingency Fund;
- $5 million from the Fund to Finance Health and Social Services Institutions will be used for that purpose.

12.2 Initiatives by health and social services institutions to improve performance

Several health and social services institutions have identified priority investment sectors and new approaches likely to improve the network's performance.

To financially support health and services institutions in their projects to improve network performance, the government is announcing that an amount of $3 million per year by 2014-2015, from the optimization assistance component of the Fund to Finance Health and Social Services Institutions, will be set aside to promote network initiatives.

12.3 Fight against tax evasion and unreported work

To ensure that all taxpayers pay their fair share of public services, the government, backed by the organizations concerned, has worked hard in recent years to ensure the integrity of the tax system. Some of that effort is funded by the Ministère des Finances' Provision to increase any appropriation for revenue initiatives (the provision).

The government is maintaining the measures already in place and will step up the fight against:

- tax evasion and unreported work in the construction sector;
- organized underground economy networks;
- contraband tobacco.

To that end, additional funding of $9 million a year will be granted to the Ministère des Finances as of 2011-2012 and charged to the provision.[14]

☐ Protection for investors

To reinforce the action of the Autorité des marchés financiers in conjunction with its investigations and oversight activities, the 2011-2012 Budget provides for an increase in the staff authorized to perform these duties.

To that end, supplementary expenditures of $3.7 million for the 2011-2012 fiscal year will be authorized. Through this mobilization of resources, it will be possible to bolster protection of Québec investors and ensure that the Québec's regulatory and oversight framework complies with the highest international standards. These expenditures will be financed by the Autorité des marchés financiers.

12.4 Assistance for owners of a residence damaged by pyrrhotite

Since summer 2009, cracks have been found in many residences in the Trois-Rivières area. These cracks are due to the presence of pyrrhotite in the concrete aggregate used for the foundations.

Thus, 600 to 900 homeowners in the area are grappling with an unforeseeable problem. Although a new home warranty applies in most cases, it often proves to be inadequate.

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[14] More information is contained in Section A of the 2011-2012 Budget Plan.

❑ Implementation of an assistance program for owners of a residence damaged by pyrrhotite

To help homeowners grappling with this pyrrhotite problem, a financial assistance program will be implemented, the terms of which will be announced shortly by the Minister of Municipal Affairs, Regions and Land Occupancy.

The program will provide financial assistance that will vary with the category of owner:

- owners with a warranty plan;
- owners whose warranty plan has expired;
- owners without a warranty plan.

The estimated total cost of the program is $20 million over 10 years. The Québec government will assume 75% of the costs of the program and will continue to negotiate with the federal government so that it assumes the other 25%.

TABLE E.40

Costs of the program for the period from 2011-2012 to 2020-2021
Québec's share
(millions of dollars)

	2011-2012	2012-2013	2013-2014 to 2016-2017	2017-2018 to 2020-2021	Total
Costs	3.0	3.0	1.5	0.75	**15.0**

To that end, funding of $3 million will be granted to the Ministère des Affaires municipales des Régions et de l'Occupation du territoire in 2011-2012. The funding for 2011-2012 will be drawn from the Contingency Fund.

12.5 Fixing of duties and implementation of fees for video lottery machine licences

Currently, applicants for, or holders of, a site operator's licence for video lottery machines do not pay any duties or fees to obtain or renew such a licence.

To correct this situation, the government is fixing at $1 000 the duties payable annually for the issuance of a site operator's licence.

Furthermore, the government will implement the planned fees of $110 payable for the examination of an application for a site operator's licence.

These measures will take effect as of January 1, 2012, and the duties and fees payable will be indexed annually.

12.6 Committee on incentive compensation and the pay structure in the public sector

In the budget of last March, the government announced its decision to suspend payment of performance bonuses to senior executives in the public sector and government corporations for two years.

The government then undertook to clarify the conditions and rules relating to performance assessment and payment of the associated bonuses.

To that end, a committee will be appointed, consisting of leaders from the economics community, the business world and the public sector, with a mandate to recommend best practices regarding incentive compensation and the pay structure in the public sector.

AN OMNIBUS BILL

The 2011-2012 Budget includes a number of major initiatives designed, on the one hand, to:

- develop our territory and resources;
- meet the challenges of demography for economic growth;
- secure the funding of our universities.

On the other hand, with the budget, the government is ensuring adequate funding of public services, in particular for culture, families and support for seniors. The budget continues to act on sustainable development and the environment.

Many measures of the budget will require legislative or regulatory amendments. Over the coming weeks, the Minister of Finance will table an omnibus bill in the National Assembly containing provisions to implement such amendments.

❑ Creation of the Fonds du Plan Nord

The omnibus bill will include provisions for the creation of the Fonds du Plan Nord. The fund will be dedicated to financing projects under the Northern Plan. The bill will specify the terms and conditions of the Fund's management as well as the revenues that will be deposited in it.

❑ Adjustments to the Québec Pension Plan

The omnibus bill will include provisions to implement the measures designed to restore the financial situation of the Québec Pension Plan. The bill will stipulate:

- the gradual rise over six years of the contribution rate from 9.9% to 10.80%;
- an adjustment of the pension to encourage later retirement;
- implementation of an automatic contribution rate adjustment mechanism.

❑ Fonds pour l'excellence et la performance universitaires

The Fonds pour l'excellence et la performance universitaires will be created to receive part of the amounts allocated to the government plan for the funding of Québec's universities. The amounts deposited in the fund will be attributed directly to the universities to:

- match donations from companies and individuals;
- support research;
- contribute to reducing the accumulated deficits of the universities.

☐ Increase in funding for the Sports and Physical Activity Development Fund

The omnibus bill will include legislative provisions for increasing the portion of the proceeds of the tobacco tax that will be paid to the Fund for the Development of Sport and Physical Activity. The additional funds will help support the repair and development of sports and recreational facilities.

☐ Payment of 25% of mining, oil and gas royalties to the Generations Fund

The bill will amend the *Act to reduce the debt and establish the Generations Fund* so that 25% of the mining, oil and gas royalties in excess of $200 million are paid into the Generations Fund as of 2014-2015.

☐ Intensification of efforts to combat unreported work and tax evasion

The omnibus bill will include provisions to implement the measures designed to intensify efforts to combat unreported work and tax evasion. The bill will stipulate:

- the provisions granting the authority to make regulations for tax certificates to be required of businesses bidding on procurement, construction work and service contracts worth $25 000 or more offered by government corporations and government bodies that do not yet require such certificates. The certificate will also be required of top-level subcontractors for government construction contracts;

- the changes to the Charte de la Ville de Longueuil, the Charte de la Ville de Montréal, the Charte de la Ville de Québec, the *Cities and Towns Act*, the *Municipal Code of Québec*, the *Act respecting the Communauté métropolitaine de Montréal*, the *Act respecting the Communauté métropolitaine de Québec* and the *Act respecting Public transit authorities*, so that tax certificates will be required henceforth on construction work contracts of $25 000 or more. The certificate will also be required of top-level subcontractors for municipal construction contracts;

- amendments, in particular to the *Act respecting the ministère du Revenu,* for the intensification of information exchange among the government partners responsible for inspecting and checking activities in the construction sector;

- the increase in fines, penalties and sanctions stipulated in the *Act respecting Labour relations, vocational training and workforce management in the construction industry.*

❑ Tobacco smuggling

The omnibus bill will include amendments to the *Tobacco Tax Act* to include a new measure that will grant additional powers to police officers and municipalities to combat tobacco smuggling.

❑ Rules governing special funds and other legislative provisions of the Ministère des Finances

The omnibus bill will include provisions to incorporate the revenues of special funds in the consolidated revenue fund. The expenditures and investments of the special funds will henceforth be authorized each year by the National Assembly.

The bill will also authorize the Minister of Finance to pledge securities he holds to guarantee the performance of his obligations stipulated in the course of these transactions, in particular those bearing on financial contracts or instruments, in order to satisfy the practices that apply on financial markets.

❑ Funding of the Agence du revenu du Québec

The omnibus bill will include a technical amendment to confirm that the Fonds relatif à l'administration fiscale can fund any expenditure made by the Agency in carrying out the mandates it receives from the government, including the payment of interest payable on a refund made by the Minister of Revenue pursuant to a tax law.

❑ Allocation of revenues arising from the elimination of the tax credit for the acquisition or leasing of a new green vehicle to the Green Fund

The omnibus bill will amend the *Act respecting the Ministère du Développement durable, de l'Environnement et des Parcs* so that the amounts that should have been paid by the tax credit for the acquisition or lease of a new green vehicle for 2012 to 2015 are instead allocated to the Green Fund. The tax credit for the acquisition or leasing of a new green vehicle will be replaced by a new electric vehicle purchase or lease rebate program.

❑ Licenses relating to video lottery machines

The omnibus bill will include provisions for setting the annual duties payable for issuing a site operator's licence and implementing the fees payable for examining a video lottery site operator's licence.

Section F

Financial Impact of the Measures of the 2011-2012 Budget

Financial impact of the measures of the 2011-2012 Budget
(millions of dollars)

	Financial impact for the government		
	2011-2012	**2012-2013**	**2013-2014**
1. PREPARING FOR THE FUTURE BY BUILDING ON OUR WEALTH			
1.1 Implementation and funding of the Northern Plan			
Funding of the Fonds du Plan Nord			
– Funding from revenues arising from carrying out Northern Plan projects	– 19.0	– 30.0	– 44.0
Subtotal	**– 19.0**	**– 30.0**	**– 44.0**
Funding and activities of the Fonds du Plan Nord			
– Tax revenue paid into the Fonds du Plan Nord	19.0	30.0	44.0
– Contribution of businesses benefiting from Northern Plan infrastructures	—	—	—
– Hydro-Québec contribution	10.0	10.0	10.0
– Financial interventions tied to the deployment of the Northern Plan	– 27.7	– 39.3	– 51.8
Subtotal	**1.3**	**0.7**	**2.2**
Subtotal	**– 17.7**	**– 29.3**	**– 41.8**
1.2 Optimizing the return on our natural resources			
Responsible natural gas production			
– Revision of the natural gas royalty regime	—	—	—
– Increased inspection of facilities in the shale gas industry	– 1.0	– 2.5	– 2.5
– Strategic environmental assessment	– 2.0	– 2.5	– 2.5
– Compensation for municipalities for quantifiable direct costs related to the shale gas industry	– 0.5	– 1.0	– 1.0
Subtotal	**– 3.5**	**– 6.0**	**– 6.0**
Promoting the forest sector			
– Working group to promote the use of wood in construction in Québec	– 0.5	—	—
– Silvicultural Investment Program	– 19.0	—	—
– Production of seedlings	– 25.6	—	—
Subtotal	**– 45.1**	**—**	**—**
Subtotal	**– 48.6**	**– 6.0**	**– 6.0**

Financial impact of the measures of the 2011-2012 Budget (continued)
(millions of dollars)

	Financial impact for the government		
	2011-2012	**2012-2013**	**2013-2014**
1.3 Investing in the potential of Quebecers			
Giving our youth a window on the world			
– School 2.0: connected classrooms	– 5.3	– 14.5	– 27.8
– Intensive English instruction	—	– 4.5	– 10.8
– A sports culture in secondary schools	– 3.5	– 4.5	– 5.0
Subtotal	**– 8.8**	**– 23.5**	**– 43.6**
Better funding for our sports infrastructure			
– Increase in the envelope of the Sports and Physical Activity Development Fund	– 3.0	– 3.0	– 3.0
Subtotal	**– 3.0**	**– 3.0**	**– 3.0**
Giving universities the means to achieve excellence			
– Increase in tuition fees			
▪ Portion allocated to the student financial assistance program	—	17.1	40.8
– Student financial assistance			
▪ Increased support for students through the student financial assistance program	—	– 17.1	– 40.8
▪ Impact on the tax credit for tuition or exam fees	—	– 3.2	– 11.7
– Additional government contribution			
▪ Fonds pour l'excellence et la performance universitaires	– 5.0	– 10.0	– 20.0
▪ Participation, graduation and support for research	—	—	—
– Recognizing the uniqueness and essentialness of the Centre hospitalier universitaire vétérinaire	– 2.8	– 3.5	– 3.5
Subtotal	**– 7.8**	**– 16.7**	**– 35.2**
Capitalizing on the skills of experienced workers			
– Introduction of a tax credit for experienced workers with respect to $10 000 of work income	—	– 35.0	– 50.0
Subtotal	—	**– 35.0**	**– 50.0**
Subtotal	**– 19.6**	**– 78.2**	**– 131.8**
SUBTOTAL	**– 85.9**	**– 113.5**	**– 179.6**

Financial impact of the measures of the 2011-2012 Budget (continued)
(millions of dollars)

	Financial impact for the government		
	2011-2012	**2012-2013**	**2013-2014**
2. SEIZING THE OPPORTUNITIES			
2.1 Develop and diversify export markets			
Creation of Exportation Québec	—	—	—
Introduction of the Export Program	– 10.0	– 15.0	– 15.0
Consolidate Québec's network of offices in emerging countries	– 1.1	– 2.2	– 2.2
Subtotal	**– 11.1**	**– 17.2**	**– 17.2**
2.2 Encourage entrepreneurship and business succession			
Business creation and assistance for new entrepreneurs			
– Capital Anges Québec: $30 million for seeding and startup of technology businesses[1]	– 0.1	– 0.2	– 0.5
– Deferral of repayment of the loan envelope of local investment funds[1]	– 0.9	– 2.1	– 3.3
Entrepreneurial culture			
– Enhancement of entrepreneurship measures	– 5.0	– 5.0	– 10.0
Entrepreneurial succession			
– Relève Québec Fund: $50 million for entrepreneurial succession[1]	– 0.2	– 0.4	– 0.6
– Additional capital of $10 million for local investment funds[1]	– 3.5	– 0.5	– 0.5
– Increase in the capitalization of Capital régional et coopératif Desjardins from $1 billion to $1.25 billion	– 9.0	– 9.0	– 9.0
Support for tourism businesses			
– $5 million fund to support the growth of tourism SMEs[1]	—	– 0.1	– 0.1
– Enhancement of regional tourism partnership agreements	– 1.0	– 1.0	– 1.0
Subtotal	**– 19.7**	**– 18.3**	**– 25.0**
2.3 Pursuing Québec's digital shift			
A digital Québec	– 1.1	– 4.5	– 9.0
2.4 Support the development of derivatives			
Support for the proposed Institut de la finance structurée et des instruments dérivés	– 0.1	– 0.1	– 0.1
SUBTOTAL	**– 32.0**	**– 40.1**	**– 51.3**

Financial impact of the measures of the 2011-2012 Budget (continued)
(millions of dollars)

	Financial impact for the government		
	2011-2012	2012-2013	2013-2014
3. CONSOLIDATING OUR SOLIDARITY TOOLS			
3.1 Supporting families and seniors			
Enhancement of the family policy			
- Creation of 15 000 new reduce-contribution child-care spaces	—	– 6.8	– 47.2
- Additional funding for the Organismes communautaires Famille and community daycare centres	– 1.5	– 1.5	– 1.5
Subtotal	**– 1.5**	**– 8.3**	**– 48.7**
Meeting the local needs of seniors			
- Seniors investment plan	—	—	—
- Greater access to the tax credit for informal caregivers of persons of full age	– 11.5	– 12.0	– 12.5
- Age-Friendly Municipalities Initiative	– 1.0	– 1.0	– 1.0
- Information hubs for seniors	– 0.5	– 0.7	– 0.9
- Maisons des grands-parents	– 0.3	– 0.3	– 0.3
- Compensation for seniors admitted to a CHSLD who must resiliate their lease	– 0.8	– 1.0	– 1.0
- Certification of residences for the elderly	– 1.0	– 1.5	– 1.5
Subtotal	**– 15.1**	**– 16.5**	**– 17.2**
Subtotal	**– 16.6**	**– 24.8**	**– 65.9**
3.2 Continuing the fight against poverty			
Investments of $140 million in the construction of 2 000 new social and community housing units	—	– 2.7	– 5.8
Gradual decrease in the eligibility age under the Shelter Allowance Program from 55 to 50	– 1.1	– 3.4	– 5.7
Improvement of the Financial Assistance Program for Domestic Help Services	—	—	—
Support for community organizations that work with those most in need	– 2.0	– 2.0	– 2.0
Subtotal	**– 3.1**	**– 8.1**	**– 13.5**

Financial impact of the measures of the 2011-2012 Budget (continued)
(millions of dollars)

	Financial impact for the government		
	2011-2012	2012-2013	2013-2014
3.3 Choosing sustainable development			
Accelerating the arrival of electric vehicles			
– New purchase rebate program for the acquisition of electric vehicles and charging stations	– 1.7	– 7.4	– 10.0
– Financing from the Green Fund	1.7	7.4	10.0
– Temporary improvement to the tax credit for the acquisition or leasing of a new green vehicle	– 0.8	—	—
Foster the development of ethanol fuel			
– Introduction of a refundable tax credit for cellulosic ethanol production	—	– 5.0	– 5.0
– Support for the improvement of first-generation ethanol fuel production efficiency	– 2.0	– 2.0	– 2.0
Developing solar power: financing of pilot projects using operational solar energy	– 3.5	– 3.5	—
Developing and maintaining the Route verte	– 4.0	– 4.0	– 4.0
Learning more about groundwater	– 1.0	– 2.0	– 2.0
Subtotal	**– 11.3**	**– 16.5**	**– 13.0**
SUBTOTAL	**– 31.0**	**– 49.4**	**– 92.4**
4. CELEBRATING QUÉBEC CULTURE			
4.1 Promoting Québec culture on the world stage			
Capital Culture Québec Fund: $100 million for major international cultural projects[1]	– 0.5	– 1.5	– 2.4
Assistance for the diffusion outside Québec of works in the arts and letters field	– 1.0	– 1.0	– 1.0
Recapitalization of the Fonds d'investissement de la culture et des communications[1]	– 0.1	– 0.1	– 0.1
Subtotal	**– 1.6**	**– 2.6**	**– 3.5**
4.2 Encourage the digital shift of the cultural industry			
Support for the digital delivery of cultural works	– 2.8	– 2.8	– 2.8
Broadening of the tax credit for book publishing to digital works	– 0.2	– 0.2	– 0.2
Subtotal	**– 3.0**	**– 3.0**	**– 3.0**
4.3 Infrastructure preservation and upgrading at the Musée des beaux-arts de Montréal	– 1.0	– 1.0	– 1.0
SUBTOTAL	**– 5.6**	**– 6.6**	**– 7.5**

Financial impact of the measures of the 2011-2012 Budget (continued)
(millions of dollars)

	Financial impact for the government		
	2011-2012	2012-2013	2013-2014
5. OTHER MEASURES			
In vivo: developing a Québec personalized care strategy	– 1.0	– 1.0	– 1.0
Initiatives by health and social services institutions to improve performance	—	—	—
New measures to fight against tax evasion and unreported work	– 9.0	– 9.0	– 9.0
Protection for investors	– 3.7	– 6.5	– 6.7
Assistance for owners of a residence damaged by pyrrhotite	– 3.0	– 3.0	– 1.5
Fixing of duties and implementation of fees for video lottery machine licences	0.7	2.7	2.8
Adjustment of the tobacco tax arising from the rise in the QST	3.8	15.0	15.0
Impact of the contribution to the funding of the Northern Plan on the results of Hydro-Québec	– 4.0	– 4.0	– 4.0
SUBTOTAL	**– 16.2**	**– 5.8**	**– 4.4**
TOTAL IMPACT OF THE MEASURES OF THE 2011-2012 BUDGET	**– 170.7**	**– 215.4**	**– 335.2**
Impact of the measures on revenue	**– 39.0**	**– 73.3**	**– 111.1**
Impact of the measures on program spending	**– 119.5**	**– 117.5**	**– 201.6**
Impact of the measures affecting debt service and the results of consolidated entities	**– 12.2**	**– 24.6**	**– 22.5**

Note: A negative amount indicates a cost for the government.

1 The impact on the government's debt service is shown for information purposes only. This impact is incorporated into the debt service forecast shown in Sections A and C of the *2011-2012 Budget Plan*.

Section G

Report on the Application of the *Balanced Budget Act*

1. THE *BALANCED BUDGET ACT* G.3

2. THE BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT G.5

3. OBJECTIVES FOR DECREASING BUDGETARY DEFICITS FOR 2011-2012 AND 2012-2013 .... G.7

4. STATUS OF THE STABILIZATION RESERVE FUND G.9

1. THE *BALANCED BUDGET ACT*

The *Balanced Budget Act* (R.S.Q., c. E-12.00001) was amended in 2009 by the *Act to amend the Balanced Budget Act* and various legislative provisions concerning the implementation of the accounting reform (2009, c. 38). The amendments were designed in particular to enable the government to deal with the most severe global recession since the 1930s.

The *Balanced Budget Act*:

- temporarily suspends the government's obligation to achieve a balanced budget for fiscal years 2009-2010 and 2010-2011;
- provides that, for the purposes of gradually returning to a balanced budget in 2013-2014, the government must meet objectives for decreasing budgetary deficits for fiscal years 2011-2012 and 2012-2013, established no later than the present budget;
- stipulates that the revenue and expenditures established in accordance with the government's accounting policies must be balanced for the fiscal year 2013-2014.

As of 2011-2012, the government must fulfil the obligation under the Act to offset any overrun in respect of the set objectives. For example, if the government records an overrun of less than $1 billion in relation to the decreasing deficit objectives for 2011-2012 and 2012-2013, or the balanced budget objective for the following fiscal years, it must achieve the budgetary objective for the subsequent fiscal year, adjusted by the amount of that overrun.

In addition, the *Balanced Budget Act* establishes a stabilization reserve fund to replace the budgetary reserve provided for in the Act to establish a budgetary surplus reserve fund (R.S.Q., c. R-25.1). The stabilization reserve is made up of the surpluses for each fiscal year and its purpose is to facilitate multi-year planning of the government's financial framework. It is used first to maintain a balanced budget and, subsidiarily, for payment of sums into the Generations Fund.

The *Balanced Budget Act*

The *Balanced Budget Act* (R.S.Q., c. E-12.00001) was adopted unanimously by the National Assembly of Québec on December 19, 1996.

Essentially, the Act stipulates that the government must table balanced budgetary forecasts and sets forth the applicable rules in the case of an overrun.

In 2009, the *Act to amend the Balanced Budget Act and various legislative provisions concerning the implementation of the accounting reform* (2009, c. 38) substantially amended the *Balanced Budget Act* to, among other things, introduce specific provisions to allow the government to weather the recession.

Consequently, the provisions prohibiting a budget deficit do not apply from March 19, 2009, to the end of the period determined by the Minister of Finance no later than as part of this budget, which was set at March 31, 2013. The Act allows the government to suspend temporarily the obligation to achieve a balanced budget for 2009-2010 and 2010-2011 without being required to offset deficits by achieving surpluses in the following fiscal years.

The Act also provides that the government must achieve the objectives for decreasing budget deficits established no later than in this budget. Those objectives must be achieved and, in the case of overruns, will be subject to the offsetting measures set forth in the Act.

The Act stipulates that the revenue and expenditures established in accordance with the government's accounting policies must be balanced by the fiscal year 2013-2014.

If the government records an overrun of less than $1 billion in relation to the decreasing deficit objectives for 2011-2012 and 2012-2013, or the balanced budget objective for the following fiscal years, it must achieve the budgetary objective for the subsequent fiscal year, adjusted by the amount of such overrun.

The Act stipulates that the government may incur overruns for a period of more than one year, where such overruns total at least $1 billion as a result of circumstances defined in the Act.

The government must then apply an offsetting financial plan ensuring that the overruns will be compensated for within a five-year period.

If there is an overrun of more than $1 billion, the Minister of Finance must:

- report to the National Assembly on the circumstances justifying the government in incurring such overruns;
- present a financial plan allowing those overruns to be offset within the five-year period;
- apply offsetting measures covering at least $1 billion within the fiscal year in which such an overrun is anticipated, or during the following year in the case of an actual overrun;
- offset at least 75% of those overruns within the first four fiscal years of that period.

In addition, the Act stipulates henceforth that entries posted to the net debt must be taken into account in calculating the budget balance, except where such entries result from changes made to the accounting policies of the government or any of its enterprises so as to bring them into compliance with a new standard of the Canadian Institute of Chartered Accountants or accounting changes relating to the accounting reform in 2006-2007.

The amended legislation also establishes a stabilization reserve fund[1] to facilitate the government's multi-year budget planning and allow for the subsidiary payment of sums into the Generations Fund. All sums corresponding to the surplus for a fiscal year are henceforth automatically allocated to the stabilization reserve fund, whose primary purpose is to maintain a balanced budget.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, at the time of the budget speech, on the objectives of the Act, their achievement and any variance recorded, and on the operations of the stabilization reserve fund.

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[1] The stabilization reserve fund replaces the budgetary reserve fund provided for in the *Act to establish a budgetary surplus reserve fund* (R.S.Q., c. R-25.1), which was repealed by the Act (2009, c. 38).

2. THE BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT

Under the *Balanced Budget Act*, the government achieves the objectives of the Act if the budgetary balance, calculated in accordance with the Act, is zero or positive.

As shown in Table G.1, a balanced budget within the meaning of the *Balanced Budget Act* was maintained from 2006-2007 to 2008-2009.

- In 2006-2007 and 2007-2008, the government posted surpluses totalling $2.6 billion placed in reserve.
- In 2008-2009, $1.8 billion was drawn from the reserve to keep the budgetary balance at zero within the meaning of the *Balanced Budget Act*.

TABLE G.1

Budgetary balance within the meaning of the *Balanced Budget Act*

(millions of dollars)

						Stabilization reserve		
Fiscal year	**Surplus (deficit) reported in the public accounts**	**Generations Fund**	**Accounting changes**	**Budgetary balance within the meaning of the Act before reserve**	**Annual surplus**	**Allocations**	**Uses**	**Budgetary balance within the meaning of the Act after reserve[1]**
2006-2007	1 993	– 584		1 409	1 409	1 300[2]	—	109
2007-2008	1 650	– 449		1 201	1 201	1 201	—	0
2008-2009	– 1 258[3]	– 587		– 1 845	—	109[4]	1 845	0
2009-2010	– 2 940	– 725	58	– 3 607	—	—	433	– 3 174[5]
2010-2011[P]	– 3 468	– 732		– 4 200	—	—	—	– 4 200[5]

P: Preliminary results.

[1] The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.

[2] In 2006-2007, only $1 300 million was allocated to the stabilization reserve in accordance with the then current legislation. Under the new *Balanced Budget Act*, the total surplus for each fiscal year is now allocated to the stabilization reserve.

[3] Amount established in the 2008-2009 financial statements without taking the adjustments made in 2009-2010 into account.

[4] In accordance with section 32 of the Act (2009, c. 38), the sum of $109 million, corresponding to the difference between the recorded surplus and the anticipated surplus for 2006-2007, was allocated to the stabilization reserve in 2008-2009.

[5] In accordance with the *Balanced Budget Act*, the obligation to attain a balanced budget is suspended in 2009-2010 and in 2010-2011.

Furthermore, in accordance with the Act, as amended in 2009, the obligation to achieve a balanced budget was temporarily suspended for 2009-2010 and 2010-2011 to allow the government to get through the recession and return to economic growth.

The actual results for 2009-2010 indicate that the budgetary balance, within the meaning of the *Balanced Budget Act*, shows a deficit of $3.2 billion after accounting for the $433-million balance of the stabilization reserve.

— This is an improvement of $1.1 billion compared to the deficit of $4.3 billion forecast in the March 2010 budget.

For 2010-2011, the budgetary balance, within the meaning of the *Balanced Budget Act*, will show a deficit of $4.2 billion.

3. OBJECTIVES FOR DECREASING BUDGETARY DEFICITS FOR 2011-2012 AND 2012-2013

The government is staying the course to gradually eliminate its budget deficit by 2013-2014 through a plan to return to budget balance.

In accordance with the Act, this budget definitively sets the objectives for decreasing budgetary deficits to be achieved in 2011-2012 and 2012-2013. These objectives must be achieved and any overrun compared to these objectives will have to be offset according to the provisions set forth in the Act to that effect.

Accordingly, as Table G.2 shows, the budgetary balance, within the meaning of the *Balanced Budget Act*, that will show a deficit of $4.2 billion in 2010-2011, must be reduced to:

- a deficit of $3.8 billion in 2011-2012;
- a deficit of $1.5 billion in 2012-2013.

The budget is stipulated to be balanced in 2013-2014, as required by the Act.

TABLE G.2

Budgetary transactions – 2011-2012 Budget[P]
(millions of dollars)

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
BUDGETARY TRANSACTIONS						
Budgetary revenue	62 376	65 375	69 087	72 087	74 624	77 339
Budgetary expenditure	– 66 753	– 69 078	– 70 759	– 72 659	– 74 843	– 77 335
Net results of consolidated entities	1 209	1 143	1 119	655	742	972
Contingency reserve	– 300	– 300	– 200	—	—	—
Measures to be identified	—	—	300	1 025	1 025	1 025
SURPLUS (DEFICIT)	**– 3 468**	**– 2 860**	**– 453**	**1 108**	**1 548**	**2 001**
BALANCED BUDGET ACT						
Deposits of dedicated revenues in the Generations Fund	– 732	– 940	– 1 047	– 1 108	– 1 548	– 2 001
BUDGETARY BALANCE WITHIN THE MEANING OF THE *BALANCED BUDGET ACT*[1]	**– 4 200**	**– 3 800**	**– 1 500**	**0**	**0**	**0**

P: Preliminary results for 2010-2011, forecasts for 2011-2012 and 2012-2013 and projections for subsequent years.

[1] For fiscal year 2013-2014, the *Balanced Budget Act* stipulates that the revenue and expenditures established in accordance with the government's accounting policies must be balanced.

4. STATUS OF THE STABILIZATION RESERVE FUND

The purpose of the stabilization reserve is to facilitate the government's multi-year budget planning. It must be used primarily to maintain a balanced budget and, subsidiarily, to reduce the debt through the deposit of sums in the Generations Fund.

In accordance with the *Balanced Budget Act*, the sums corresponding to the surplus for each fiscal year are allocated to the stabilization reserve. A surplus is the amount of a budget balance that is greater than zero. The balance of the stabilization reserve is adjusted on the basis of the recorded surpluses allocated to the reserve or the amounts used from the reserve for each fiscal year.

Because of the economic recession Québec went through, the government has used up all of the stabilization reserve over the last few years. In 2008-2009, $1 845 million was used to maintain a balanced budget and $132 million to be deposited into the Generations Fund to reduce Québec's debt. In 2009-2010, the remaining $433 million of the stabilization reserve was applied to reduce the budget deficit.

TABLE G.3

Stabilization reserve transactions

(millions of dollars)

Fiscal year	**Balance, beginning of year**	**Allocations**	**Uses**	**Balance, end of year**
2006-2007	—	1 300	—	1 300
2007-2008	1 300	1 201[1]	– 200[2]	2 301
2008-2009	2 301	109[3]	– 1 977[4]	433
2009-2010	433	—	– 433	—
2010-2011[P]	—	—	—	—

P: Preliminary results.

[1] In accordance with the legislation in effect prior to the Act (2009, c. 38), this amount includes $484 million corresponding to an additional budget surplus determined at the end of fiscal year 2007-2008 and announced in the 2009-2010 Budget.

[2] The amount of $200 million corresponds to a deposit in the Generations Fund.

[3] This amount corresponds to the balance of the surplus recorded for fiscal 2006-2007.

[4] This amount includes the sum of $1 845 million to maintain a balanced budget and a deposit of $132 million in the Generations Fund.

Section H

Report on the *Application of the Act to reduce the debt and establish the Generations Fund*

1. DEBT REDUCTION OBJECTIVES H.3

2. AMOUNTS ACCUMULATED IN THE GENERATIONS FUND H.5

3. EVOLUTION OF THE DEBT REPRESENTING ACCUMULATED DEFICITS AND THE GROSS DEBT H.7

1. DEBT REDUCTION OBJECTIVES

As was specified in the March 30, 2010 Budget, the Act to reduce the debt and establish the Generations Fund was amended to adjust the concepts of debt used and the debt reduction targets to reach.

☐ Debt reduction targets to be achieved by 2025-2026

The government has set the following two debt-reduction objectives to be achieved within 15 years. Accordingly, for fiscal year 2025-2026:

- the debt representing accumulated deficits must not exceed 17% of GDP;
- the gross debt must not exceed 45% of GDP.

☐ Debt reduction through higher electricity rates

With the adoption of Bill 100 (2010, c. 20), the government acted on its announcement to increase deposits to the Generations Fund. As of 2014-2015, all of the amounts from the gradual rise of the price of heritage electricity, over five years, of 1 ¢/kWh, will be paid into the Generations Fund.

These additional payments will represent $315 million in 2014-2015, i.e. the year after the budget is balanced, $630 million in 2015-2016, reaching $1 575 million in 2018-2019.

☐ Additional deposits to the Generations Fund from the increase in mining, oil and gas royalties

This budget stipulates that as of 2014-2015, additional deposits corresponding to 25% of any amount in excess of $200 million in net mining, oil and gas royalties received by the government will be paid into the Generations Fund.

These additional payments will represent $30 million and $35 million in 2014-2015 and 2015-2016 respectively. Thereafter, the amounts allocated to the Generations Fund will be determined annually as part of the budget tabled by the Minister of Finance.

To that effect, legislative amendments will be made to the *Act to reduce the debt and establish the Generations Fund* to add these new revenue sources to the amounts already dedicated to the Generations Fund. Moreover, consequential amendments will also be made to the other statutes concerned.

Requirements of the Act

The *Act to reduce the debt and establish the Generations Fund* was adopted on June 15, 2006.[1] This statute established the Generations Fund, a fund dedicated exclusively to repaying the gross debt.

The Act was amended by Bill 100 (2010, c. 20)[2] to revise the concepts of debt used and the debt reduction targets that must be reached by 2025-2026.

The amended Act stipulates that, for fiscal year 2025-2026, the debt representing accumulated deficits must not exceed 17% of GDP and the gross debt must not exceed 45% of GDP.

Under the Act, the Generations Fund is constituted of amounts from seven revenue sources dedicated to debt repayment, namely:

- water-power royalties paid by Hydro-Québec and private producers of hydro-electricity;
- a portion of Hydro-Québec's earnings on the sale of electricity outside Québec from its new production capacities;
- fees or charges for water withdrawal;
- the sale of assets;
- gifts, legacies and other contributions received by the Minister of Finance;
- unclaimed property administered by the Minister of Revenue;
- income generated by the investment of the sums making up the Fund.

In addition, under Bill 100 (2010, c. 20), a new revenue source has been dedicated to the Generations Fund, consisting of the gradual rise over five years in the cost of supplying heritage electricity as of 2014. To that effect, the *Hydro-Québec Act* was amended so that a sum of $315 million, increased by the same amount each year to reach $1 575 million as of 2018-2019, is to be paid into the Generations Fund from the dividends the Company pays to the government for each of its fiscal years as of the one ending December 31, 2014.

The *Act to reduce the debt and establish the Generations Fund* allows the government to order that a part, which it establishes, of any sums it collects or receives and over which Parliament has the power of appropriation, is to be paid directly into the Generations Fund.

Similarly, this Act authorizes the government, subject to the provisions of the *Balanced Budget Act*, to use the stabilization reserve to pay amounts into the Generations Fund.

The amounts constituting the Fund are deposited with the Caisse de dépôt et placement du Québec and managed in accordance with an investment policy determined by the Minister of Finance.

Lastly, the Act stipulates that the Minister of Finance must report to the National Assembly, in the Budget Speech, on the evolution of the debt representing accumulated deficits and the gross debt, on the amounts constituting the Fund and, if need be, those used to repay the gross debt.

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[1] R.S.Q., c. R-2.2.0.1.

[2] Bill entitled *An Act to implement certain provisions of the Budget Speech of 30 March 2010, reduce the debt and return to a balanced budget in 2013-2014*, assented to on June 12, 2010.

2. AMOUNTS ACCUMULATED IN THE GENERATIONS FUND

In 2010-2011, $732 million was allocated to the Generations Fund. The downward adjustment of $160 million compared to the March 2010 budget stems chiefly from lower revenue than expected from water-power royalties and investment income.

For 2011-2012 and 2012-2013, the revenue of the Generations Fund should reach $940 million and $1 047 million, respectively.

Taking into account the deposits since its creation and those forecast for the coming years, the book value of the Generations Fund will reach:

- $3 409 million as at March 31, 2011;
- $4 349 million as at March 31, 2012;
- $5 396 million as at March 31, 2013.

TABLE H.1

Generations Fund
(millions of dollars)

			2011-2012 Budget[P]		
	Budget 2010-2011	Adjustments	2010-2011	2011-2012	2012-2013
BOOK VALUE, BEGINNING OF YEAR	2 667	10	2 677	3 409	4 349
DEDICATED REVENUES					
Water-power royalties					
Hydro-Québec	600	– 43	557	608	646
Private producers	87	– 11	76	81	87
	687	– 54	633	689	733
Unclaimed property	2	9	11	7	7
Investment income	203	– 115	88	244	307
TOTAL	**892**	**– 160**	**732**	**940**	**1 047**
BOOK VALUE, END OF YEAR	**3 559**	**– 150**	**3 409**	**4 349**	**5 396**

P: Preliminary results for 2010-2011 and forecasts for subsequent years.

The following table shows the book value and market value of the Generations Fund since its creation. Section D provides detailed information in this regard as well as describing the investment policy of the Generations Fund.

TABLE H.2

Book value and market value of the Generations Fund as at March 31

(millions of dollars)

	Book value	**Market value**	**Difference**
2006-2007[1]	584	576	8
2007-2008	1 233	1 147	86
2008-2009	1 952	1 598	354
2009-2010	2 677	2 556	121
2010-2011[P]	3 409	3 533[2]	– 124

P: Preliminary results.

[1] The first payment was made to the Generations Fund on January 31, 2007.

[2] Market value of $3 287 million as at December 31, 2010 plus the revenues deposited to the Generations Fund from January 1 to March 31, 2011.

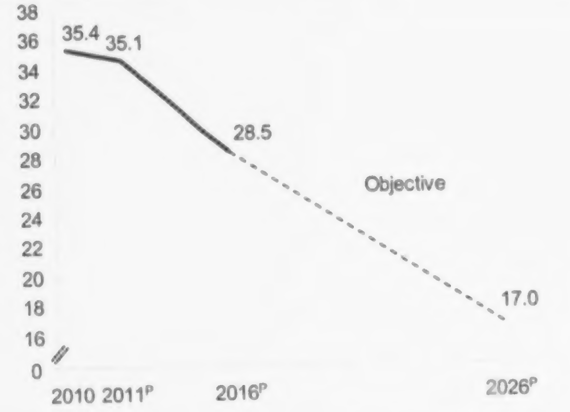
3. EVOLUTION OF THE DEBT REPRESENTING ACCUMULATED DEFICITS AND THE GROSS DEBT

The following charts show how the ratios of the debt representing accumulated deficits and the gross debt have changed as a percentage of GDP:

- the debt representing accumulated deficits should amount to $111.4 billion as at March 31, 2011, i.e. 35.1% of GDP. The government's objective is to reduce this ratio to 17% by 2025-2026;
- the gross debt should amount to $173.4 billion as at March 31, 2011, i.e. 54.7% of GDP. The government's objective is to reduce the ratio of gross debt to GDP to 45% by 2025-2026.

CHART H.1

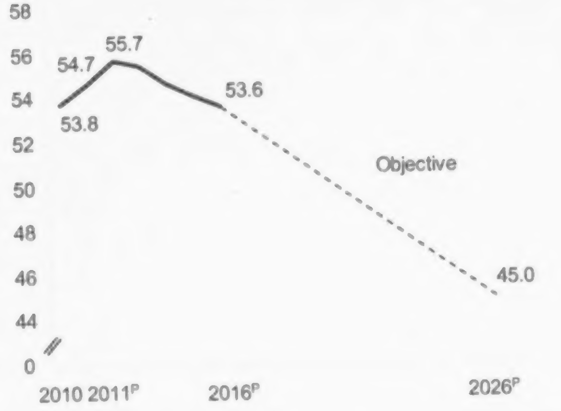
Debt representing accumulated deficits
(as at March 31, as a percentage of GDP)



P: Preliminary results for 2011, forecasts for 2012 to 2016 and projections for subsequent years.

CHART H.2

Gross debt[1]
(as at March 31, as a percentage of GDP)



P: Preliminary results for 2011, forecasts for 2012 to 2016 and projections for subsequent years.

Note: The gross debt takes into account the sums accumulated in the Generations Fund.

[1] The gross debt excludes pre-financing.

Section D provides detailed results concerning the Québec government's debt.

Section I

Additional Information – Historical Data

1. **ADDITIONAL INFORMATION** I.3

Summary of consolidated budgetary and financial transactions I.3

Revenue by source I.4

Expenditure by department I.5

Consolidated non-budgetary transactions I.6

Consolidated financing transactions I.7

2. **HISTORICAL DATA** I.9

Consolidated revenue fund I.9

Specified purpose accounts I.10

Non-budget-funded bodies, special funds and health and social services and education networks I.11

Generations Fund I.12

Summary of consolidated budgetary transactions I.13

Summary of consolidated non-budgetary transactions I.14

Debt of the Québec government I.15

Net debt of the Québec government I.16

Debt representing accumulated deficits I.17

Change in debt service – 2011-2012 Budget I.18

Notes: Throughout this section, the budgetary data for 2007-2008 to 2009-2010 are actual, those for 2010-2011 are preliminary and those for 2011-2012 and 2012-2013 are forecasts.

The data for 1997-1998 and subsequent years have been restated to reflect the creation of the Land Transportation Network Fund (FORT) and the Tax Administration Fund (FRAF), as well as the application of the allowance for doubtful accounts against budgetary revenue.

1. ADDITIONAL INFORMATION

TABLE I.1

Summary of consolidated budgetary and financial transactions

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011
Budgetary transactions of the consolidated revenue fund				
Own-source revenue	45 881	45 152	44 130	46 925
Federal transfers	13 629	14 023	15 161	15 451
Total budgetary revenue	**59 510**	**59 175**	**59 291**	**62 376**
Program spending	– 52 080	– 55 442	– 58 389	– 59 819
Debt service	– 7 021	– 6 504	– 6 117	– 6 934
Total budgetary expenditure	**– 59 101**	**– 61 946**	**– 64 506**	**– 66 753**
Net results of consolidated entities	**1 241**	**1 513**	**2 275**	**1 209**
Contingency reserve				– 300
SURPLUS (DEFICIT)	**1 650**	**– 1 258**	**– 2 940**	**– 3 468**
Balanced Budget Act				
Deposits in the Generations Fund	– 649	– 719	– 725	– 732
Amounts used from the stabilization reserve	200	1 977	433	—
Amounts allocated to the stabilization reserve	– 1 201	—	—	—
Accounting changes[1]			58	
BUDGETARY BALANCE WITHIN THE MEANING OF THE ACT AFTER STABILIZATION RESERVE[2]	—	—	**– 3 174**	**– 4 200**
Deposits of dedicated revenues in the Generations Fund	449	587	725	732
CONSOLIDATED BUDGETARY BALANCE	**449**	**587**	**– 2 449**	**– 3 468**
Consolidated non-budgetary transactions				
Investments, loans and advances	– 2 658	– 1 086	– 2 009	– 1 622
Capital expenditures	– 1 457	– 2 297	– 4 226	– 5 094
Net investments in the networks	– 487	– 622	—	—
Retirement plans and employee future benefits	2 458	2 274	2 612	3 364
Other accounts	988	614	1 354	350
CONSOLIDATED NON-BUDGETARY REQUIREMENTS	**– 1 156**	**– 1 117**	**– 2 269**	**– 3 002**
CONSOLIDATED NET FINANCIAL REQUIREMENTS	**– 707**	**– 530**	**– 4 718**	**– 6 470**

Notes: A negative entry indicates a financial requirement and a positive entry, a source of financing.
The health and social services and education networks are consolidated line by line as of 2009-2010, therefore, consolidated net financial requirements henceforth take into account the budgetary and non-budgetary transactions of the networks.

[1] The *Balanced Budget Act* stipulates that the budgetary balance must take the impact of certain accounting changes into account.

[2] The budgetary balance within the meaning of the *Balanced Budget Act* after use of the stabilization reserve corresponds to the budgetary balance that takes into account the allocations to and uses of the stabilization reserve.

TABLE I.2

Consolidated revenue fund
Revenue by source
(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011
Own-source revenue				
Income and property taxes				
Personal income tax	17 887	17 103	16 460	18 016
Contributions to the health services fund	5 404	5 631	5 796	5 863
Corporate taxes	4 589	3 916	3 601	3 633
Subtotal	**27 880**	**26 650**	**25 857**	**27 512**
Consumption taxes				
Sales	10 011	10 472	10 474	11 659
Tobacco	647	594	664	739
Alcoholic beverages	421	430	433	437
Other	17	17	16	17
Subtotal	**11 096**	**11 513**	**11 587**	**12 852**
Duties and permits				
Natural resources	86	9	105	75
Other	237	243	251	262
Subtotal	**323**	**252**	**356**	**337**
Miscellaneous				
Sales of goods and services	390	428	441	421
Interest	562	635	387	541
Fines, forfeitures and recoveries	605	661	624	549
Subtotal	**1 557**	**1 724**	**1 452**	**1 511**
Revenue from government enterprises				
Société des alcools du Québec	761	806	867	887
Loto-Québec	1 360	1 375	1 252	1 237
Hydro-Québec	2 926	3 098	2 943	2 440
Other	– 22	– 266	– 184	149
Subtotal	**5 025**	**5 013**	**4 878**	**4 713**
Total	**45 881**	**45 152**	**44 130**	**46 925**
Federal transfers				
Equalization	7 160	8 028	8 355	8 552
Health transfers	3 925	3 740	4 148	4 309
Transfers for post-secondary education and social programs	1 516	1 267	1 461	1 455
Other programs	1 028	988	1 197	1 135
Total	**13 629**	**14 023**	**15 161**	**15 451**
TOTAL REVENUE	**59 510**	**59 175**	**59 291**	**62 376**

TABLE I.3

Consolidated revenue fund Expenditure by department

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011
Program spending				
Affaires municipales, Régions et Occupation du territoire	1 821	1 812	1 816	1 861
Agriculture, Pêcheries et Alimentation	724	706	1 100	1 062
Assemblée nationale	114	115	114	116
Conseil du trésor et Administration gouvernementale	552	592	603	755
Conseil exécutif	285	295	310	334
Culture, Communications et Condition féminine	633	654	665	661
Développement durable, Environnement et Parcs	202	215	218	210
Développement économique, Innovation et Exportation	706	972	901	916
Éducation, Loisir et Sport	13 399	14 321	14 653	15 213
Emploi et Solidarité sociale	4 108	4 176	4 305	4 322
Famille et Aînés	1 836	1 960	2 066	2 250
Finances (excluding debt service)	89	221	282	102
Immigration et Communautés culturelles	132	158	167	176
Justice	680	696	702	714
Personnes désignées par l'Assemblée nationale	70	134	70	70
Relations internationales	115	128	125	111
Ressources naturelles et Faune	641	593	688	623
Santé et Services sociaux	24 054	25 621	27 466	28 116
Sécurité publique	1 054	1 119	1 157	1 180
Tourisme	145	137	145	138
Transports	681	778	799	845
Travail	39	39	37	44
Total	**52 080**	**55 442**	**58 389**	**59 819**
Debt service				
Direct debt service	4 548	4 372	3 755	4 286
Interest ascribed to retirement plans	2 436	2 116	2 371	2 661
Employee future benefits	37	16	– 9	– 13
Total	**7 021**	**6 504**	**6 117**	**6 934**
TOTAL EXPENDITURE	**59 101**	**61 946**	**64 506**	**66 753**

TABLE I.4

Consolidated non-budgetary transactions

(millions of dollars)

	2007-2008	2008-2009	2009-2010[1]	2010-2011
Investments, loans and advances				
Consolidated revenue fund				
– Government enterprises				
▪ Shares and investments				
○ Société générale de financement	—	– 250	– 250	—
○ Other	—	—	—	– 20
▪ Change in the equity value of investments	– 807	– 580	– 591	– 703
▪ Loans and advances				
○ IQ FIER inc.	– 82	– 39	– 21	– 18
○ Hydro-Québec	—	—	– 143	—
○ Loto-Québec	—	– 270	– 32	—
○ Other	—	– 9	– 1	– 10
Total government enterprises	– 889	– 1 148	– 1 038	– 751
– Individuals, corporations and others				
▪ Investments with the Caisse de dépôt et placement du Québec	– 1 100	804	296	—
▪ Other	– 22	– 104	– 135	466
– Municipalities and municipal bodies	1	1	—	—
Total consolidated revenue fund	**– 2 010**	**– 447**	**– 877**	**– 285**
Consolidated entities	– 648	– 639	– 1 132	– 1 336
Total investments, loans and advances	**– 2 658**	**– 1 086**	**– 2 009**	**– 1 622**
Capital expenditures				
Consolidated revenue fund				
– Net investments	– 222	– 241	– 242	– 493
– Amortizations	234	254	256	151
Consolidated entities	– 1 469	– 2 310	– 4 240	– 4 752
Total capital expenditures	**– 1 457**	**– 2 297**	**– 4 226**	**– 5 094**
Net investments in the networks[2]				
Annual surplus (deficit)	442	– 31	—	—
Loans and advances to the networks	– 929	– 591	—	—
Total net investments in the networks	**– 487**	**– 622**	—	—
Retirement plans and employee future benefits				
Cost of vested benefits,[3] amortizations, and contributions	2 049	2 071	2 122	2 487
Interest on the actuarial obligation	4 398	4 383	4 627	4 739
Benefits, repayments and administrative expenses	– 3 989	– 4 180	– 4 294	– 3 862
Consolidated entities	—	—	157	—
Total retirement plans and employee future benefits	**2 458**	**2 274**	**2 612**	**3 364**
Other accounts				
Consolidated revenue fund	1 519	890	1 128	441
Consolidated entities	– 531	– 276	226	– 91
Total other accounts	**988**	**614**	**1 354**	**350**
TOTAL CONSOLIDATED NON-BUDGETARY TRANSACTIONS	**– 1 156**	**– 1 117**	**– 2 269**	**– 3 002**

[1] With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account as of 2009-2010.

[2] From 2007-2008 to 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.

[3] Actuarial value of retirement benefits credited during the fiscal year, calculated according to the actuarial projected benefit method prorated on service.

TABLE I.5

Consolidated financing transactions[1]

(millions of dollars)

	2007-2008	2008-2009	2009-2010	2010-2011
CHANGE IN CASH POSITION				
Consolidated revenue fund	3 656	– 5 748	3 878	1 323
Consolidated entities	– 691	1 109	– 176	172
Total	**2 965**	**– 4 639**	**3 702**	**1 495**
NET BORROWINGS				
Consolidated revenue fund				
- New borrowings	4 187	12 677	7 126	9 093
- Repayment of borrowings	– 4 135	– 4 134	– 6 848	– 4 803
Subtotal	52	8 543	278	4 290
Consolidated entities				
- New borrowings	5 808	4 674	7 538	9 633
- Repayment of borrowings	– 2 574	– 2 411	– 3 481	– 4 103
Subtotal	3 234	2 263	4 057	5 530
Total	**3 286**	**10 806**	**4 335**	**9 820**
Retirement Plans Sinking Fund,[2] other retirement plan assets and funds dedicated to employee future benefits[3]	**– 4 895**	**– 4 918**	**– 2 594**	**– 4 113**
Generations Fund	**– 649**	**– 719**	**– 725**	**– 732**
TOTAL CONSOLIDATED FINANCING TRANSACTIONS	**707**	**530**	**4 718**	**6 470**

Note: The data take into account the line-by-line consolidation of the results of institutions in the health and social services and education networks with those of the government as of 2009-2010.

[1] A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

[2] This sinking fund receives amounts to be used to cover retirement benefits payable by the government under the public and parapublic sector retirement plans. The investment income of this fund is reinvested in it and applied against the interest on the actuarial obligation to obtain the interest charge on the retirement plans.

[3] Employee future benefits funds receive amounts used to cover employee future benefits (accumulated sick leave and survivor's pension) payable to government employees.

2. HISTORICAL DATA

TABLE I.6

Budgetary transactions
Consolidated revenue fund[1]

(millions of dollars)

	Own-source revenue[2, 3]	Federal transfers[4]	Budgetary revenue	Program spending	Debt service	Budgetary expenditure	Contingency reserve
Before government accounting reforms							
1972-1973	3 672	1 261	4 933	– 5 038	– 242	– 5 280	
1973-1974	4 279	1 376	5 655	– 6 026	– 288	– 6 314	
1974-1975	5 271	1 871	7 142	– 7 288	– 296	– 7 584	
1975-1976	6 006	2 222	8 228	– 8 811	– 368	– 9 179	
1976-1977	7 020	2 520	9 540	– 10 260	– 456	– 10 716	
1977-1978	7 867	3 088	10 955	– 11 053	– 606	– 11 659	
1978-1979	8 382	3 268	11 650	– 12 331	– 817	– 13 148	
1979-1980	9 295	3 754	13 049	– 14 479	– 970	– 15 449	
1980-1981	10 578	3 894	14 472	– 16 571	– 1 382	– 17 953	
1981-1982	13 269	4 473	17 742	– 18 413	– 1 950	– 20 363	
1982-1983	14 385	5 172	19 557	– 19 720	– 2 300	– 22 020	
1983-1984	15 414	6 227	21 641	– 21 294	– 2 511	– 23 805	
1984-1985	15 829	6 236	22 065	– 22 926	– 3 012	– 25 938	
1985-1986	17 795	6 178	23 973	– 24 092	– 3 354	– 27 446	
1986-1987	19 525	5 828	25 353	– 24 769	– 3 556	– 28 325	
1987-1988	21 992	6 117	28 109	– 26 830	– 3 675	– 30 505	
1988-1989	23 366	6 386	29 752	– 27 654	– 3 802	– 31 456	
1989-1990	24 359	6 674	31 033	– 28 782	– 4 015	– 32 797	
1990-1991	26 073	6 972	33 045	– 31 583	– 4 437	– 36 020	
1991-1992	27 720	6 747	34 467	– 34 102	– 4 666	– 38 768	
1992-1993	27 561	7 764	35 325	– 35 599	– 4 756	– 40 355	
1993-1994	28 165	7 762	35 927	– 35 534	– 5 316	– 40 850	
1994-1995	28 815	7 494	36 309	– 36 248	– 5 882	– 42 130	
1995-1996	30 000	8 126	38 126	– 36 039	– 6 034	– 42 073	
1996-1997	30 522	6 704	37 226	– 34 583	– 5 855	– 40 438	
After government accounting reform in 1997-1998							
1997-1998	30 415	5 656	36 071	– 33 037	– 6 765	– 39 802	
1998-1999	32 936	7 813	40 749	– 35 440	– 6 573	– 42 013	
1999-2000	35 417	6 064	41 481	– 36 074	– 6 752	– 42 826	
2000-2001	37 447	7 895	45 342	– 38 394	– 6 972	– 45 366	
2001-2002	35 638[5]	8 885	44 523[5]	– 40 377	– 6 687	– 47 064	
2002-2003	37 301[5]	8 932	46 233[5]	– 42 111	– 6 583	– 48 694	
2003-2004	38 819[5]	9 370	48 189[5]	– 43 598	– 6 655	– 50 253	
2004-2005	41 069	9 229	50 298	– 45 619	– 6 853	– 52 472	
2005-2006	42 374	9 969	52 343	– 46 996	– 6 875	– 53 871	
After government accounting reform in 2006-2007							
2006-2007	46 184	11 015	57 199	– 49 293	– 7 039	– 56 332	
2007-2008	45 881	13 629	59 510	– 52 080	– 7 021	– 59 101	
2008-2009	45 152	14 023	59 175	– 55 442	– 6 504	– 61 946	
2009-2010	44 130	15 161	59 291	– 58 389	– 6 117	– 64 506	
2010-2011	46 925	15 451	62 376	– 59 819	– 6 934	– 66 753	– 300
2011-2012	50 336	15 039	65 375	– 61 284	– 7 794	– 69 078	– 300
2012-2013	53 883	15 204	69 087	– 62 113	– 8 646	– 70 759	– 200

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

1 Data for the consolidated revenue fund exclude the revenue and expenditure of specified purpose accounts, agencies and special funds, the health and social services and education networks, and the Generations Fund, which are presented in tables I.7, I.8 and I.9 respectively.

2 Own-source revenue includes that of government enterprises.

3 As of 1997-1998, the allowance for doubtful accounts reduces own-source revenue for budget presentation purposes.

4 Revenue is presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

5 Revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

TABLE I.7

Budgetary transactions
Specified purpose accounts

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After government accounting reform in 1997-1998							
1997-1998	119	486	605	– 605	0	– 605	0
1998-1999	121	181	302	– 302	0	– 302	0
1999-2000	138	141	279	– 279	0	– 279	0
2000-2001	158	185	343	– 343	0	– 343	0
2001-2002	193	329	522	– 522	0	– 522	0
2002-2003	242	263	505	– 505	0	– 505	0
2003-2004	219	451	670	– 670	0	– 670	0
2004-2005	211	387	598	– 598	0	– 598	0
2005-2006	229	836	1 065	– 1 065	0	– 1 065	0
After government accounting reform in 2006-2007							
2006-2007	237	572	809	– 809	0	– 809	0
2007-2008	267	716	983	– 983	0	– 983	0
2008-2009	257	709	966	– 966	0	– 966	0
2009-2010	295	857	1 152	– 1 152	0	– 1 152	0
2010-2011	221	1 721	1 942	– 1 942	0	– 1 942	0
2011-2012	357	1 340	1 697	– 1 697	0	– 1 697	0
2012-2013	359	1 038	1 397	– 1 397	0	– 1 397	0

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

TABLE I.8

Budgetary transactions
Non-budget-funded bodies, special funds and health and social services and education networks

(millions of dollars)

	Own-source revenue	Federal transfers	Total revenue	Expenditure excluding debt service	Debt service	Total expenditure	Net results
Before government accounting reforms							
1972-1973							
1973-1974							
1974-1975							
1975-1976							
1976-1977							
1977-1978							
1978-1979							
1979-1980							
1980-1981							
1981-1982							
1982-1983							
1983-1984							
1984-1985							
1985-1986							
1986-1987							
1987-1988							
1988-1989							
1989-1990							
1990-1991							
1991-1992							
1992-1993							
1993-1994							
1994-1995							
1995-1996							
1996-1997							
After government accounting reform in 1997-1998							
1997-1998	3 904	319	4 223	– 2 072	– 577	– 2 649	1 574
1998-1999	4 281	298	4 579	– 2 575	– 614	– 3 189	1 390
1999-2000	4 445	325	4 770	– 2 797	– 621	– 3 418	1 352
2000-2001	4 439	239	4 678	– 2 643	– 634	– 3 277	1 401
2001-2002	4 561	262	4 823	– 2 636	– 574	– 3 210	1 613
2002-2003	4 947	262	5 209	– 2 927	– 549	– 3 476	1 733
2003-2004	5 177	299	5 476	– 3 184	– 586	– 3 770	1 706
2004-2005	5 252	323	5 575	– 3 469	– 596	– 4 065	1 510
2005-2006	5 795	317	6 112	– 3 863	– 684	– 4 547	1 565
After government accounting reform in 2006-2007							
2006-2007	6 338	383	6 721	– 3 995[1]	– 1 684	– 5 679	1 042
2007-2008	6 746	388	7 134	– 4 611[1]	– 1 731	– 6 342	792
2008-2009	6 666	349	7 015	– 4 462[1]	– 1 627	– 6 089	926
With line-by-line consolidation of the networks							
2009-2010	10 466	1 092	11 558	– 8 281	– 1 727	– 10 008	1 550
2010-2011	11 220	561	11 781	– 9 381	– 1 923	– 11 304	477
2011-2012	11 954	874	12 828	– 10 559	– 2 066	– 12 625	203
2012-2013	13 641	701	14 342	– 11 789	– 2 481	– 14 270	72

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

[1] Since the 2006-2007 accounting reform, pursuant to the *Balanced Budget Act* in effect since the reform, the amounts presented correspond to those published in the financial statements for the fiscal year concerned, without taking into account restatements for that year that may be affected in subsequent fiscal years.

TABLE I.9

Generations Fund

(millions of dollars)

	Dedicated revenues							
	Water-power royalties							
	Hydro-Québec	Private producers	Unclaimed property	Other	Investment income	Total	Deposit from the reserve	Deposits in the Generations Fund
Before government accounting reforms								
1972-1973								
1973-1974								
1974-1975								
1975-1976								
1976-1977								
1977-1978								
1978-1979								
1979-1980								
1980-1981								
1981-1982								
1982-1983								
1983-1984								
1984-1985								
1985-1986								
1986-1987								
1987-1988								
1988-1989								
1989-1990								
1990-1991								
1991-1992								
1992-1993								
1993-1994								
1994-1995								
1995-1996								
1996-1997								
After government accounting reform in 1997-1998								
1997-1998								
1998-1999								
1999-2000								
2000-2001								
2001-2002								
2002-2003								
2003-2004								
2004-2005								
2005-2006								
After government accounting reform in 2006-2007								
2006-2007	65	11	5	500	3	584		584
2007-2008	367	46	0		36	449	200	649
2008-2009	548	88	1		– 50	587	132[1]	719
2009-2010	569	89	7		60	725		725
2010-2011	557	76	11		88	732		732
2011-2012	608	81	7		244	940		940
2012-2013	646	87	7		307	1 047		1 047

[1] Deposit of $132 million from the stabilization reserve for 2008-2009 derived from the sale of assets by Société immobilière du Québec.

TABLE I.10

Summary of consolidated budgetary transactions[1]

(millions of dollars)

	Own-source revenue	Federal transfers[2]	Consolidated revenue	Expenditure excluding debt service	Debt service	Consolidated expenditure	Plan to restore fiscal balance, measures to be identified	Contingency reserve	Deposits in the Generations Fund	Amounts used from the reserve and other	Amounts allocated to the reserve	Budgetary balance within the meaning of the Act after reserve[3]	Deposits of dedicated revenues in the Generations Fund	Consolidated budgetary balance
Before government accounting reforms														
1972-1973	3 672	1 261	4 933	– 5 038	– 242	– 5 280						– 347		– 347
1973-1974	4 279	1 376	5 655	– 6 026	– 288	– 6 314						– 659		– 659
1974-1975	5 271	1 871	7 142	– 7 288	– 296	– 7 584						– 442		– 442
1975-1976	6 006	2 222	8 228	– 8 811	– 368	– 9 179						– 951		– 951
1976-1977	7 020	2 520	9 540	– 10 260	– 456	– 10 716						– 1 176		– 1 176
1977-1978	7 867	3 088	10 955	– 11 053	– 606	– 11 659						– 704		– 704
1978-1979	8 382	3 268	11 650	– 12 331	– 817	– 13 148						– 1 498		– 1 498
1979-1980	9 295	3 754	13 049	– 14 479	– 970	– 15 449						– 2 400		– 2 400
1980-1981	10 578	3 894	14 472	– 16 571	– 1 382	– 17 953						– 3 481		– 3 481
1981-1982	13 269	4 473	17 742	– 18 413	– 1 950	– 20 363						– 2 621		– 2 621
1982-1983	14 385	5 172	19 557	– 19 720	– 2 300	– 22 020						– 2 463		– 2 463
1983-1984	15 414	6 227	21 641	– 21 294	– 2 511	– 23 805						– 2 164		– 2 164
1984-1985	15 829	6 236	22 065	– 22 926	– 3 012	– 25 938						– 3 873		– 3 873
1985-1986	17 795	6 178	23 973	– 24 092	– 3 354	– 27 446						– 3 473		– 3 473
1986-1987	19 525	5 828	25 353	– 24 769	– 3 556	– 28 325						– 2 972		– 2 972
1987-1988	21 992	6 117	28 109	– 26 830	– 3 675	– 30 505						– 2 396		– 2 396
1988-1989	23 366	6 386	29 752	– 27 654	– 3 802	– 31 456						– 1 704		– 1 704
1989-1990	24 359	6 674	31 033	– 28 782	– 4 015	– 32 797						– 1 764		– 1 764
1990-1991	26 073	6 972	33 045	– 31 583	– 4 437	– 36 020						– 2 975		– 2 975
1991-1992	27 720	6 747	34 467	– 34 102	– 4 666	– 38 768						– 4 301		– 4 301
1992-1993	27 561	7 764	35 325	– 35 599	– 4 756	– 40 355						– 5 030		– 5 030
1993-1994	28 165	7 762	35 927	– 35 534	– 5 316	– 40 850						– 4 923		– 4 923
1994-1995	28 815	7 494	36 309	– 36 248	– 5 882	– 42 130						– 5 821		– 5 821
1995-1996	30 000	8 126	38 126	– 36 039	– 6 034	– 42 073						– 3 947		– 3 947
1996-1997	30 522	6 704	37 226	– 34 583	– 5 855	– 40 438						– 3 212		– 3 212
After government accounting reform in 1997-1998														
1997-1998	34 438	6 461	40 899	– 35 714	– 7 342	– 43 056						– 2 157		– 2 157
1998-1999	37 338	8 292	45 630	– 38 317	– 7 187	– 45 504						126		126
1999-2000	40 000	6 530	46 530	– 39 150	– 7 373	– 46 523						7		7
2000-2001	42 044	8 319	50 363	– 41 380	– 7 606	– 48 986				– 950		427		427
2001-2002	40 392[4]	9 476	49 868	– 43 535	– 7 261	– 50 796				950		22		22
2002-2003	42 490[4]	9 457	51 947	– 45 543	– 7 132	– 52 675						– 728		– 728
2003-2004	44 215[4]	10 120	54 335	– 47 452	– 7 241	– 54 693						– 358		– 358
2004-2005	46 532	9 939	56 471	– 49 686	– 7 449	– 57 135						– 664		– 664
2005-2006	48 398	11 122	59 520	– 51 924	– 7 559	– 59 483						37		37
After government accounting reform in 2006-2007[5]														
2006-2007	52 843	11 970	64 813	– 54 097	– 8 723	– 62 820			– 584		– 1 300	109	584	693
2007-2008	53 343	14 733	68 076	– 57 674	– 8 752	– 66 426			– 649	200	– 1 201	—	449	449
2008-2009	52 662	15 081	67 743	– 60 870	– 8 131	– 69 001			– 719	1 977		—	587	587
2009-2010	55 616	17 110	72 726	– 67 822	– 7 844	– 75 666			– 725	491[6]		– 3 174	725	– 2 449
2010-2011	59 998	17 733	77 731	– 72 042	– 8 857	– 80 899		– 300	– 732			– 4 200	732	– 3 468
2011-2012	64 437	17 253	81 690	– 74 390	– 9 860	– 84 250		– 300	– 940			– 3 800	940	– 90
2012-2013	69 780	16 943	86 723	– 76 149	– 11 127	– 87 276	300	– 200	– 1 047			– 1 500	1 047	– 453

[1] For consistency with the financial data presented in the public accounts for years prior to 2009-2010, the consolidated budgetary balance for those years does not take into account the changes made by Bill 40 (2009, c. 38) to the mechanics of the reserve. As of 2009-2010, the data take the impact of Bill 40 into account (see section F).

[2] Presented on a cash basis until 2004-2005 and on an accrual basis thereafter.

[3] The budgetary balance within the meaning of the *Balanced Budget Act* after reserve corresponds to the budgetary balance that takes into account amounts allocated to and used from the stabilization reserve.

[4] Own-source revenue includes the exceptional losses of the Société générale de financement du Québec, i.e. $91 million in 2001-2002, $339 million in 2002-2003 and $358 million in 2003-2004.

[5] From 2006-2007 to 2008-2009, the net results of the health and social services and education networks were established using the modified equity method. As of 2009-2010, the revenue and expenditure of the networks are consolidated line-by-line, like those of non-budget-funded bodies and special funds.

[6] Including an accounting change of $58 million.

TABLE I.11

Summary of consolidated non-budgetary transactions

(millions of dollars)

		Consolidated non-budgetary transactions						
	Consolidated budgetary balance	Investments, loans and advances	Capital expenditures	Net investments in the networks[1]	Retirement plans	Other accounts	Excess amount (shortfall)	Net financial surplus (requirements)
Before government accounting reforms								
1972-1973	– 347	– 53			– 1	18	– 36	– 383
1973-1974	– 659	– 122			25	459	362	– 297
1974-1975	– 442	– 146			104	319	277	– 165
1975-1976	– 951	– 186			109	622	545	– 406
1976-1977	– 1 176	– 183			187	– 161	– 157	– 1 333
1977-1978	– 704	– 229			265	– 488	– 452	– 1 156
1978-1979	– 1 498	– 189			316	119	246	– 1 252
1979-1980	– 2 400	– 188			683	551	1 046	– 1 354
1980-1981	– 3 481	– 56			822	416	1 182	– 2 299
1981-1982	– 2 621	– 586			1 007	71	492	– 2 129
1982-1983	– 2 463	– 761			1 051	– 40	250	– 2 213
1983-1984	– 2 164	– 672			1 057	– 436	– 51	– 2 215
1984-1985	– 3 873	– 167			1 183	887	1 903	– 1 970
1985-1986	– 3 473	40			1 269	493	1 802	– 1 671
1986-1987	– 2 972	– 380			1 355	260	1 235	– 1 737
1987-1988	– 2 396	– 680			2 203	– 493	1 030	– 1 366
1988-1989	– 1 704	– 670			1 634	– 265	699	– 1 005
1989-1990	– 1 764	– 516			1 164	300	948	– 816
1990-1991	– 2 975	– 458			1 874	77	1 493	– 1 482
1991-1992	– 4 301	– 411			1 916	141	1 646	– 2 655
1992-1993	– 5 030	– 490			1 525	82	1 117	– 3 913
1993-1994	– 4 923	– 623			1 668	52	1 097	– 3 826
1994-1995	– 5 821	– 1 142			1 509	578	945	– 4 876
1995-1996	– 3 947	– 287			1 701	– 415	999	– 2 948
1996-1997	– 3 212	– 792			1 928	– 60	1 076	– 2 136
After government accounting reform in 1997-1998								
1997-1998	– 2 157	– 1 315	– 209		1 888	109	473	– 1 684
1998-1999	126	– 1 402	– 217		1 020	996	397	523
1999-2000	7	– 2 006	– 359		1 740	1 328	703	710
2000-2001	427	– 1 632	– 473		1 793	– 631	– 943	– 516
2001-2002	22	– 1 142	– 995		2 089	– 589	– 637	– 615
2002-2003	– 728	– 1 651	– 1 482		2 007	217	– 909	– 1 637
2003-2004	– 358	– 1 125	– 1 019		2 219	– 1 183	– 1 108	– 1 466
2004-2005	– 664	– 979	– 1 083		2 134	174	246	– 418
2005-2006	37	– 1 182	– 1 166		2 310	– 208	– 246	– 209
After government accounting reform in 2006-2007								
2006-2007	693	– 2 213	– 1 177	– 1 002	2 559	– 1 620	– 3 453	– 2 760
2007-2008	449	– 2 658	– 1 457	– 487	2 458	988	– 1 156	– 707
2008-2009	587	– 1 086	– 2 297	– 622	2 274	614	– 1 117	– 530
2009-2010[2]	– 2 449	– 2 009	– 4 226		2 612	1 354	– 2 269	– 4 718
2010-2011[2]	– 3 468	– 1 622	– 5 094		3 364	350	– 3 002	– 6 470
2011-2012[2]	– 2 860	– 2 024	– 4 222		2 720	– 1 148	– 4 674	– 7 534
2012-2013[2]	– 453	– 1 101	– 5 373		2 597	– 121	– 3 998	– 4 451

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

[1] From 2006-2007 to 2008-2009, the net investments of the health and social services and education networks were established using the modified equity method.

[2] With line-by-line consolidation, the investments, loans and advances, capital expenditures and other accounts of the networks are taken into account as of 2009-2010.

Debt of the Québec government

	Consolidated direct debt[1]		Retirement plans: Retirement plans liability[2]	Retirement plans: Less: Retirement Plans Sinking Fund	Retirement plans: Net retirement plans liability		Employee future benefits: Employee future benefits liability	Employee future benefits: Less: funds dedicated to employee future benefits	Employee future benefits: Net employee future benefits liability	Less: Generations Fund	Debt[1]	
	$ million	As a % of GDP	$ million	$ million	$ million	As a % of GDP	$ million	$ million	$ million	$ million	$ million	As a % of GDP
Before government accounting reforms											**Total debt – Data not restated to include the impact of the 1997-1998 and 2006-2007 accounting reforms**	
1972-1973	3 309	12.0									3 309	12.0
1973-1974	3 679	11.8									3 679	11.8
1974-1975	4 030	11.0			67	0.2					4 097	11.2
1975-1976	4 955	12.0			179	0.4					5 134	12.4
1976-1977	6 035	12.5			354	0.7					6 389	13.2
1977-1978	7 111	13.4			620	1.2					7 731	14.6
1978-1979	8 325	14.1			915	1.6					9 240	15.7
1979-1980	9 472	14.4			1 598	2.4					11 070	16.8
1980-1981	12 247	16.8			2 420	3.3					14 667	20.1
1981-1982	14 184	17.6			3 428	4.3					17 612	21.9
1982-1983	16 485	19.3			4 489	5.3					20 974	24.6
1983-1984	18 880	20.6			5 545	6.0					24 425	26.6
1984-1985	21 216	21.2			6 729	6.7					27 945	27.9
1985-1986	23 633	22.0			7 998	7.4					31 631	29.4
1986-1987	25 606	21.9			9 353	8.0					34 959	29.9
1987-1988	26 819	20.9			10 883	8.5					37 702	29.4
1988-1989	27 091	19.2			12 597	8.9					39 688	28.1
1989-1990	27 699	18.7			14 320	9.6					42 019	28.3
1990-1991	29 637	19.3			16 227	10.6					45 864	29.9
1991-1992	33 106	21.3			18 143	11.7					51 249	33.0
1992-1993	39 231	24.8			19 668	12.4					58 899	37.2
1993-1994	45 160	27.8	21 337	– 854	20 483	12.6					65 643	40.4
1994-1995	52 468	30.8	22 846	– 849	21 997	12.9					74 465	43.7
1995-1996	52 886	29.8	24 547	– 923	23 624	13.3					76 510	43.1
1996-1997	52 625	29.2	26 475	– 1 014	25 461	14.1					78 086	43.3
Data restated to include the impact of the accounting reform in 2006-2007											**Gross debt – Networks consolidated at equity value**	
1997-1998	69 995	37.1	42 242	– 1 179	41 063	21.8	759	– 292	467		111 525	59.2
1998-1999	73 803	37.6	43 350	– 2 209	41 141	21.0	805	– 317	488		115 432	58.8
1999-2000	76 166	36.1	45 129	– 5 040	40 089	19.0	867	– 361	506		116 761	55.4
2000-2001	80 108	35.6	47 001	– 7 059	39 942	17.8	894	– 382	512		120 562	53.6
2001-2002	84 451	36.5	49 106	– 10 199	38 907	16.8	938	– 384	554		123 912	53.5
2002-2003	89 083	36.9	51 167	– 11 840	39 327	16.3	1 083	– 358	725		129 135	53.5
2003-2004	93 325	37.2	53 414	– 14 204	39 210	15.6	1 034	– 338	696		133 231	53.1
2004-2005	98 842	37.6	55 634	– 18 333	37 301	14.2	1 086	– 335	751		136 894	52.1
2005-2006	103 339	38.0	58 214	– 22 563	35 651	13.1	1 095	– 357	738		139 728	51.4
2006-2007	110 412	39.1	60 802	– 26 877	33 925	12.0	1 176	– 424	752	– 584	144 505	51.2
2007-2008	118 032	39.9	63 442	– 31 749	31 693	10.7	1 166	– 433	733	– 1 233	149 225	50.4
2008-2009	124 629	41.2	65 803	– 36 025	29 778	9.8	1 114	– 1 055	59	– 1 952	152 514	50.4
Data taking into account the line-by-line consolidation of the networks											**Gross debt – Networks consolidated line-by-line**	
2008-2009	129 745	42.9	65 803	– 36 025	29 778	9.8	1 114	– 1 055	59	– 1 952	157	52.1
2009-2010	136 074	44.8	67 989	– 38 200	29 789	9.8	1 238	– 1 106	132	– 2 677	163	53.8
2010-2011	147 666	46.6	71 371	– 42 278	29 093	9.2	1 235	– 1 156	79	– 3 409	173	54.7
2011-2012	158 314	48.0	74 105	– 44 329	29 776	9.0	1 236	– 1 207	29	– 4 349	183	55.7
2012-2013	165 881	48.2	76 692	– 46 215	30 477	8.9	1 260	– 1 260	0	– 5 396	190	55.5

1 Excluding deferred foreign exchange gains or losses and pre-financing.

2 Gross retirement plans liability less the assets of the retirement plans other than the Retirement Plans Sinking Fund.

TABLE I.13

Net debt of the Québec government

	$ million	As a % of GDP
Before government accounting reforms		**Data for 1972-1973 to 1996-1997 are not comparable with those for 1997-1998 to 2012-2013**
1972-1973	2 992	10.9
1973-1974	3 651	11.7
1974-1975	4 093	11.2
1975-1976	5 044	12.2
1976-1977	6 353	13.2
1977-1978	7 058	13.3
1978-1979	8 460	14.4
1979-1980	10 836	16.5
1980-1981	14 326	19.6
1981-1982	12 569	15.6
1982-1983	15 038	17.6
1983-1984	17 298	18.8
1984-1985	21 455	21.4
1985-1986	25 735	24.0
1986-1987	28 716	24.5
1987-1988	31 115	24.2
1988-1989	32 819	23.3
1989-1990	34 583	23.3
1990-1991	37 558	24.5
1991-1992	41 885	27.0
1992-1993	46 914	29.6
1993-1994	51 837	32.0
1994-1995	57 677	33.8
1995-1996	61 624	34.8
1996-1997	64 833	35.9
After government accounting reform in 1997-1998		**Data for 1997-1998 to 2005-2006 are not comparable with those for 1972-1973 to 2005-2006 and 2006-2007 to 2012-2013**
1997-1998	88 597	47.0
1998-1999	88 810	45.3
1999-2000	89 162	42.3
2000-2001	88 208	39.2
2001-2002	92 772	40.1
2002-2003	95 601	39.6
2003-2004	97 025	38.7
2004-2005	99 042	37.7
2005-2006	104 683	38.6
After government accounting reform in 2006-2007		**Data for 2006-2007 to 2008-2009 are not comparable with those for 1972-1973 to 1996-1997 and 2009-2010 to 2012-2013**
2006-2007	124 297	44.0
2007-2008	124 681	42.1
2008-2009	134 237	44.3
With line-by-line consolidation of the networks		**Data for 2009-2010 to 2012-2013 are not comparable with those for previous years**
2009-2010	150 100	49.4
2010-2011	158 995	50.1
2011-2012	166 077	50.4
2012-2013	171 903	50.0

TABLE I.14

Debt representing accumulated deficits

	Debt representing accumulated deficits for the purposes of the public accounts[1, 2]		Plus: balance of the stabilization reserve	Debt representing accumulated deficits after taking into account the stabilization reserve	
	$ million	As a % of GDP	$ million	$ million	As a % of GDP
Before government accounting reforms				**Data for 1972-1973 to 1996-1997 are not comparable with those for 1997-1998 to 2012-2013**	
1972-1973	2 992	10.9		2 992	10.9
1973-1974	3 651	11.7		3 651	11.7
1974-1975	4 093	11.2		4 093	11.2
1975-1976	5 044	12.2		5 044	12.2
1976-1977	6 353	13.2		6 353	13.2
1977-1978	7 058	13.3		7 058	13.3
1978-1979	8 460	14.4		8 460	14.4
1979-1980	10 836	16.5		10 836	16.5
1980-1981	14 326	19.6		14 326	19.6
1981-1982	12 569	15.6		12 569	15.6
1982-1983	15 038	17.6		15 038	17.6
1983-1984	17 298	18.8		17 298	18.8
1984-1985	21 455	21.4		21 455	21.4
1985-1986	25 735	24.0		25 735	24.0
1986-1987	28 716	24.5		28 716	24.5
1987-1988	31 115	24.2		31 115	24.2
1988-1989	32 819	23.3		32 819	23.3
1989-1990	34 583	23.3		34 583	23.3
1990-1991	37 558	24.5		37 558	24.5
1991-1992	41 885	27.0		41 885	27.0
1992-1993	46 914	29.6		46 914	29.6
1993-1994	51 837	32.0		51 837	32.0
1994-1995	57 677	33.8		57 677	33.8
1995-1996	61 624	34.8		61 624	34.8
1996-1997	64 833	35.9		64 833	35.9
After government accounting reform in 1997-1998				**Data for 1997-1998 to 2005-2006 are not comparable with those for 1972-1973 to 1996-1997 and 2006-2007 to 2012-2013**	
1997-1998	82 581	43.8		82 581	43.8
1998-1999	82 577	42.1		82 577	42.1
1999-2000	82 469	39.1		82 469	39.1
2000-2001	81 042	36.0	950	81 992	36.5
2001-2002	84 538	36.5		84 538	36.5
2002-2003	85 885	35.6		85 885	35.6
2003-2004	86 290	34.4		86 290	34.4
2004-2005	87 224	33.2		87 224	33.2
2005-2006	91 699[3]	33.7		91 699[3]	33.7
After government accounting reform in 2006-2007				**Data for 2006-2007 to 2012-2013 are not comparable with those for previous years**	
2006-2007	96 124	34.0	1 300	97 424	34.5
2007-2008	94 824	32.0	2 301	97 125	32.8
2008-2009	103 000	34.0	433	103 433	34.2
2009-2010	107 617	35.4		107 617	35.4
2010-2011	111 418	35.1		111 418	35.1
2011-2012	114 278	34.7		114 278	34.7
2012-2013	114 731	33.3		114 731	33.3

[1] Before taking into account the stabilization reserve.

[2] Includes various accounting restatements that have not undergone a surplus (deficit) adjustment for previous years.

[3] The increase observed in 2005-2006 is mainly attributable to the implementation of accrual accounting for federal transfers.

TABLE I.15

Change in debt service – 2011-2012 Budget

	Consolidated Revenue Fund							
	Direct debt	**Interest ascribed to the retirements plans**[1]	**Employee future benefits**[2]	**Total**	**As a % of budgetary revenue**	**Consolidated entities**	**Debt service**	
	$ million	$ million	$ million	$ million		$ million	$ million	As a % of budgetary revenue
Before government accounting reforms								
1971-1972	210			210	4.8		210	4.8
1972-1973	242			242	4.9		242	4.9
1973-1974	288			288	5.1		288	5.1
1974-1975	296			296	4.1		296	4.1
1975-1976	368			368	4.5		368	4.5
1976-1977	456			456	4.8		456	4.8
1977-1978	606			606	5.5		606	5.5
1978-1979	763	54		817	7.0		817	7.0
1979-1980	882	88		970	7.4		970	7.4
1980-1981	1 217	165		1 382	9.5		1 382	9.5
1981-1982	1 686	264		1 950	11.0		1 950	11.0
1982-1983	1 921	379		2 300	11.8		2 300	11.8
1983-1984	2 031	480		2 511	11.6		2 511	11.6
1984-1985	2 414	598		3 012	13.7		3 012	13.7
1985-1986	2 648	706		3 354	14.0		3 354	14.0
1986-1987	2 754	802		3 556	14.0		3 556	14.0
1987-1988	2 751	924		3 675	13.1		3 675	13.1
1988-1989	2 665	1 137		3 802	12.8		3 802	12.8
1989-1990	2 829	1 186		4 015	12.9		4 015	12.9
1990-1991	3 026	1 411		4 437	13.4		4 437	13.4
1991-1992	3 222	1 444		4 666	13.5		4 666	13.5
1992-1993	3 475	1 281		4 756	13.5		4 756	13.5
1993-1994	3 750	1 566		5 316	14.8		5 316	14.8
1994-1995	4 333	1 549		5 882	16.2		5 882	16.2
1995-1996	4 287	1 747		6 034	15.8		6 034	15.8
1996-1997	3 906	1 949		5 855	15.7		5 855	15.7
After government accounting reform in 1997-1998								
1997-1998	3 800	2 965		6 765	18.8	577	7 342	18.0
1998-1999	4 159	2 414		6 573	16.1	614	7 187	15.8
1999-2000	4 120	2 632		6 752	16.3	621	7 373	15.8
2000-2001	4 378	2 594		6 972	15.4	634	7 606	15.1
2001-2002	3 970	2 717		6 687	15.0	574	7 261	14.6
2002-2003	3 935	2 648		6 583	14.2	549	7 132	13.7
2003-2004	3 913	2 742		6 655	13.8	586	7 241	13.3
2004-2005	4 066	2 787		6 853	13.6	596	7 449	13.2
2005-2006	4 044	2 831		6 875	12.3	684	7 559	12.7
After government accounting reform in 2006-2007								
2006-2007	4 357	2 643	39	7 039	12.3	1 684	8 723	13.4
2007-2008	4 548	2 436	37	7 021	11.8	1 731	8 752	12.9
2008-2009	4 372	2 116	16	6 504	11.0	1 627	8 131	12.0
With line-by-line consolidation of the networks								
2009-2010	3 755	2 371	– 9	6 117	10.3	1 727	7 844	10.8
2010-2011	4 286	2 661	– 13	6 934	11.1	1 923	8 857	11.4
2011-2012	5 007	2 804	– 17	7 794	11.9	2 066	9 860	12.1
2012-2013	5 574	3 091	– 19	8 646	12.5	2 481	11 127	12.8

[1] Interest ascribed to the retirement plans corresponds to interest on the actuarial obligation less the investment income of the Retirement Plans Sinking Fund.

[2] Employee future benefits correspond to the interest on the accumulated sick leave obligation minus the investment income of the Accumulated Sick Leave Fund, and to the interest on the survivor's pension plan obligation minus the investment income of the Survivor's Pension Plan Fund.

Section J

Additionnal Information on the Fiscal Measures

1. **INCOME TAX MEASURES** **J.3**
    - 1.1 Introduction of a tax credit for experienced workers J.3
    - 1.2 Greater access to the refundable tax credit for informal caregivers of persons of full age J.8
    - 1.3 Replacement of the refundable tax credit for the acquisition or leasing of a new green vehicle by a purchase or leasing rebate program J.11
    - 1.4 Introduction of a refundable tax credit for the production of cellulosic ethanol and changes to the existing refundable tax credit for the production of ethanol in Québec J.13
        - 1.4.1 Introduction of a refundable tax credit for the production of cellulosic ethanol in Québec J.13
        - 1.4.2 Changes to the existing refundable tax credit for the production of ethanol in Québec J.20
    - 1.5 Changes to the refundable tax credit for book publishing J.25
    - 1.6 Change to the refundable tax credit for sound recording production J.29
    - 1.7 Measures to encourage investments of tax-advantaged funds J.31
2. **MEASURES RELATING TO CONSUMPTION TAXES** **J.37**
    - 2.1 Adjustment to the tobacco tax stemming from the rise of the Québec sales tax J.37
    - 2.2 Implementation of a new mechanism for managing the tax exemption of Indians regarding fuel tax J.38

1. INCOME TAX MEASURES

1.1 Introduction of a tax credit for experienced workers

Like most industrialized countries, Québec has an aging population, but what characterizes the phenomenon here is the rapidity with which the change is occurring.

Due to accelerated population aging and the low birth rate in recent decades, the available labour pool will necessarily shrink in the near future.

Consequently, to encourage experienced workers to remain in, or return to, the labour market, a tax credit to eliminate the income tax that people 65[1] or over would have had to pay on part - ultimately, a maximum of $10 000 - of their eligible work income in excess of $5 000 will be introduced as of the 2012 taxation year.

☐ Determination of the tax credit

Individuals who live in Québec and are 65 years of age at the end of a particular taxation year, or on their date of death if they died in the year, will be able to deduct, in the calculation of their income tax otherwise payable for the year, an amount equal to that determined according to the following formula:

Rate applicable for the year to the first taxable income bracket of the personal income tax table (16%)	×	Eligible amount of work income for the year (maximum $10 000, when fully implemented)	×	Amount by which 1 exceeds the rate used for the year to calculate the deduction for workers[2] (1 - 0.06)

Given that the purpose of the tax credit for experienced workers is to recognize an individual's work effort in a year, the unused portion of the tax credit may not be carried forward or transferred to the individual's spouse.

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[1] Normal retirement age is generally set in public and private pension plans at age 65. At that age, the participant can obtain Québec Pension Plan benefits without actuarial reduction, the Old Age Security pension and, where applicable the Guaranteed Income Supplement.

[2] This element of the formula takes into account the fact that the deduction for workers already has the effect of exempting from income tax an amount equal to 6% of work income (up to $17 416.67 in 2011).

❑ Eligible amount of work income

For the purposes of the tax credit for experienced workers, the term "eligible amount of work income" of an individual for a particular taxation year means the amount by which the individual's eligible work income for the year exceeds $5 000, to a maximum of:

- $3 000, if the particular taxation year is 2012;
- $4 000, if the particular taxation year is 2013;
- $5 000, if the particular taxation year is 2014;
- $8 000, if the particular taxation year is 2015;
- $10 000, if the particular taxation year is after 2015.

■ Eligible work income

An individual's eligible work income for a particular taxation year will correspond to the aggregate of the following:

- the salaries, wages and other remuneration, including gratuities,[3] taken into account by the individual in computing his or her income for the year from an office or employment;
- the amount by which the individual's income for the year from any business the individual carries on either alone or as a partner actively engaged in the business exceeds the aggregate of the losses for the year from such businesses;
- an amount included in the calculation of the individual's income for the year under the *Wage Earner Protection Program Act*,[4] in regard to wages within the meaning of the Act;
- an amount included in computing the individual's income for the year as earnings supplements received under a project sponsored by a government or government agency in Canada to encourage an individual to obtain or keep employment or to carry on a business either alone or as a partner actively engaged in the business;
- an amount included in computing the individual's income for the year as a grant to carry on research or any similar work.

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[3] This term includes both tips attributed and tips reported to the employer.

[4] S.C. 2005, c. 47.

However, an individual may not include, in computing his or her eligible work income for a particular taxation year, the following amounts:

— the amounts included in computing the individual's income for the year from an office or employment, if each of those amounts is the value of a benefit received or enjoyed by the individual in the year because of a previous office or employment;

— the amounts deducted in computing the individual's taxable income for the year.[5]

In addition, for the year during which an individual turns 65, only the portion of the individual's eligible work income for the year that is attributable to the period in the year throughout which the individual was at least 65 may be taken into account in computing the tax credit for experienced workers.

☐ Application details

Various amendments must be made to the tax legislation to take into account the incorporation of the non-refundable tax credit for experienced workers into the personal income tax system.

■ Order of application of tax credits

The tax legislation provides for the order in which non-refundable tax credits are to be applied, prioritizing tax credits for which no carry forward or transfer is allowed.

Given that the unused portion of the tax credit for experienced workers may not be carried forward or transferred to the spouse, the tax legislation will be amended to provide that the tax credit will be taken into account in computing the individual's income tax otherwise payable, after, where applicable, the basic tax credit, the tax credit for minor children engaged in vocational training or post-secondary studies, the tax credit for other dependants, the tax credit relating to the transfer of the recognized parental contribution, and the tax credit for a person living alone, with respect to age and for retirement income.

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[5] For example, the individual may not include, in computing his or her eligible work income for a year, an amount attributable to the portion of work income deducted in computing his or her taxable income for the year because the income was situated on a reserve or on premises, was exempt from income tax under a tax agreement, entitled the individual to a tax holiday for specialized foreign workers (e.g. researchers, experts, professors) or was related to the exercise of a stock option.

■ Individuals who go bankrupt during a year

Under the tax legislation, individuals who go bankrupt during a calendar year are deemed to have two taxation years during that calendar year: the first one extending from January 1 to the day before the bankruptcy (pre-bankruptcy taxation year), and the second, from the day of the bankruptcy to December 31 (post-bankruptcy taxation year).

For the purpose of calculating the tax credit for experienced workers for the pre-bankruptcy taxation year, the maximum eligible amount of work income that would otherwise have been applicable (for example, $3 000 in 2012) must be replaced by an amount equal to the proportion of the maximum amount represented by the ratio between the number of days in the pre-bankruptcy taxation year and the number of days in the calendar year.

The amount of the tax credit for experienced workers that may be deducted by an individual for the post-bankruptcy taxation year must be determined according to the following rules:

- the maximum eligible amount of work income that would otherwise have been applicable must be replaced by an amount equal to the proportion of the maximum amount represented by the ratio between the number of days in the post-bankruptcy taxation year and the number of days in the calendar year;
- the amount of $5 000 used to calculate the eligible amount of work income must be replaced by an amount equal to the amount by which $5 000 exceeds the individual's eligible work income for the pre-bankruptcy taxation year.

Furthermore, when an individual turns 65 during the calendar year in which he or she goes bankrupt, only those days included in the pre-bankruptcy, post-bankruptcy and calendar years on which the individual is at least 65 must be taken into account to determine the ratio to be applied to the maximum eligible amount of work income.

■ Calculation of the foreign tax credit

To avoid the double taxation that can result when income is taxable in more than one country, the tax system grants a foreign tax credit to individuals who are resident in Québec at the end of a taxation year.[6]

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[6] Individuals who are resident in Québec on their date of death are also entitled to the foreign tax credit.

Briefly, this tax credit recognizes the income tax that was paid during a year to the government of a foreign country on income that was derived from a source in that country and that is also taxed in Québec for that year. The tax credit is calculated separately, depending on whether the foreign income tax was paid on business or non-business income.

To maintain the integrity of the tax system, amendments will be made to the tax legislation to specify that income tax on business income and non-business income paid by an individual for a particular taxation year to the government of a foreign country does not include, respectively, the income tax that may reasonably be considered to relate to the individual's eligible amount of work income for the year.

■ Determination of the alternative minimum tax

The alternative minimum tax is intended to strike a balance between, on the one hand, the objectives of public spending fairness and financing and, on the other, economic development objectives, by ensuring that taxpayers who benefit from tax preferences pay a minimum amount of income tax each year.

The alternative minimum tax applicable to an individual for a taxation year is equal to the amount by which an amount representing 16% of the portion, in excess of $40 000, of the individual's adjusted taxable income exceeds his or her basic minimum tax deduction.[7]

After determining the alternative minimum tax applicable for the year, an individual must compare it to the income tax calculated for the year, according to the rules of the basic tax system, and pay the higher of the two amounts.

So that the goal of the tax credit for experienced workers is fully met, the tax credit will be taken into account in determining the amount of the basic minimum tax deduction.

☐ Source deductions

Individuals who, for a particular taxation year, expect to earn more than $5 000 in eligible work income may ask their employer, on the prescribed form, to reduce the source deductions from the remuneration the employer pays them during the year, in order to take into account the tax credit for experienced workers to which they may be entitled.

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[7] This deduction enables certain non-refundable tax credits claimed in the basic tax system to be granted.

1.2 Greater access to the refundable tax credit for informal caregivers of persons of full age

Over the years, an increasing number of people with severe disabilities have expressed the desire to stay as long as possible in their community, with their informal networks of friends and relatives.

Nowadays, there are thousands of people with disabilities who remain at home in total safety. However, despite the range of home support services offered to them by the public health and social services network, many would inevitably be placed in a facility were it not for the devotion of their relatives.

Relatives who are informal caregivers are therefore key players in enabling people with a severe disability to remain at home.

People, primarily women, who provide ongoing care and assistance to a loved one because of his or her physical or mental state, and who do so without remuneration, are generally called informal caregivers. Whether they assume these responsibilities by choice or out of necessity, their role and devotion are no less essential to the recipients of their care.

That is truer still when the person receiving the care cannot live alone.

However, as informal caregivers play an increasing role in the provision of care to people with a severe disability, so their need for respite grows proportionately. According to a study from the past decade, 70% of informal caregivers say they feel the need to take a break from their responsibilities.

To enable informal caregivers to obtain a little respite, the tax system grants them, in recognition of their social gesture, a refundable tax credit - up to $1 075 in 2011 - for housing an elderly person or a person with a severe and prolonged impairment in mental or physical functions.

Currently, individuals can claim this refundable tax credit for each eligible relative[8] they house in a dwelling of which they or their spouse is the owner, lessee or sublessee.

For each eligible relative housed, the tax credit is comprised of a universal basic amount of $591, plus a supplement of $484 that is reduced at a rate of 16% for every dollar of the eligible relative's income that exceeds a threshold of $21 505.[9]

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[8] Essentially, a person is considered the eligible relative of an individual if the person is of full age and is the child, grandchild, nephew, niece, brother, sister, uncle, aunt, great-uncle, great-aunt or any other direct ascendant of the individual or the individual's spouse, and has a severe and prolonged impairment in mental or physical functions (unless the person has turned 70 years of age or over or would have reached that age had the person not died before the end of the year for which the housing period applies, and is the uncle, aunt, great-uncle, great-aunt or any other direct ascendant of the individual or of the individual's spouse).

[9] The universal basic amount, the supplement and the income-based reduction threshold are automatically indexed each year.

In recent months, two decisions by the Small Claims Division of the Court of Québec called into question the basis of the tax credit, namely, the housing of an eligible relative, by ascribing to it a meaning very close to that of cohabitation.

Since it may be justified in certain cases to substitute a criterion of cohabitation with the eligible relative for that of housing the latter, a component will be added to the refundable tax credit for informal caregivers of persons of full age in order to recognize the gesture of informal caregivers who cohabit with an eligible relative unable to live alone.

Moreover, given that the responsibilities of assistance and care provided to a person 70 or over still living at home generally fall to the spouse, who is also often elderly and vulnerable, another component will be added to the tax credit to enable certain spouses to receive the universal basic amount in order to obtain a little respite.

Thus, as of the 2011 taxation year, the refundable tax credit for informal caregivers of persons of full age will have three components. The first will apply to informal caregivers who house, in the strict sense of the term, an eligible relative; the second, to informal caregivers who cohabit with an eligible relative unable to live alone; and the third, to certain informal caregivers caring for an elderly spouse.

To claim one of these components for a particular taxation year, individuals must live in Québec at the end of December 31 of that year, or on their date of death if they died during the year, and must not be dependent[10] upon another individual during the year.

☐ Informal caregivers housing an eligible relative

The current rules of the refundable tax credit for informal caregivers of persons of full age in regard to the housing of an eligible relative will form, as of the 2011 taxation year, the first component of the tax credit.

However, so there is no ambiguity as to the scope of this component, the tax legislation will be amended to specify that it applies solely to informal caregivers who house an eligible relative in a dwelling of which the informal caregiver or the latter's spouse is the owner, lessee or sublessee, alone or with a person other than the eligible relative.

For greater clarity, the details of the calculation of the tax credit will be the same for this component.

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[10] Individuals may not claim the refundable tax credit for informal caregivers of persons of full age for a particular taxation year if a person, other than their spouse, deducted in regard to them, in computing his or her income tax otherwise payable for the year, an amount as the tax credit for minor children engaged in vocational training or postsecondary studies, the tax credit for other dependants, the tax credit attributable to the transfer of the recognized parental contribution, the tax credit for medical expenses or the tax credits relative to medical care not provided in the region of residence.

❑ Informal caregivers cohabiting with an eligible relative

Providing housing is not the only way to take charge of an eligible relative requiring care. Nowadays, it is not unusual to see adults go back home to live with their elderly parents in order to provide them with care and assistance, or become informal caregivers of a brother or sister whose dwelling they share, whether or not as a co-lessee or co-owner.

The second component of the refundable tax credit for informal caregivers of persons of full age will take that reality into account.

More specifically, it will apply, for a particular taxation year, to informal caregivers who, throughout a period of at least 365 consecutive days beginning in the year or the previous year, of which at least 183 days are in the year, cohabit with an eligible relative in a dwelling[11] of which the latter or his or her spouse is the owner, lessee or sublessee alone or with another person,[12] provided a physician attests that the eligible relative is unable to live alone because of a severe and prolonged impairment in mental or physical functions.[13]

For the application of this component, where, for a particular taxation year, more than one individual living with an eligible relative could be considered the relative's informal caregiver, only the individual who is the principal person providing support to the eligible relative may be considered the latter's informal caregiver.

For greater clarity, the current rules relative to the determination of the amount of the tax credit will apply fully to this second component.

❑ Informal caregivers caring for an elderly spouse

Seniors who live in a residence for elderly persons can generally count at all times on a range of home support services that, when they become their spouse's informal caregiver, lighten their burden and provide them with respite.

On the other hand, people who are still living at home with an elderly spouse who becomes unable to live alone have a lot fewer resources at their disposal.

The third component of the refundable tax credit for informal caregivers of persons of full age is aimed at giving such persons the possibility to obtain a little respite by granting them the universal basic amount.[14]

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[11] The dwelling must be a self-contained domestic establishment within the meaning of the tax legislation. Essentially, it is a dwelling (house, apartment, etc.) equipped with a bathroom and a place to prepare meals, and in which, as a rule, a person eats and sleeps.

[12] The other person could be the informal caregiver.

[13] The attestation must be provided on the prescribed form.

[14] For greater clarity, the amount of the tax credit granted under the third component will not include a supplement, because the tax system already allows the unused portion of most non-refundable tax credits, including the tax credit for a person with a severe and prolonged impairment in mental or physical functions, to be transferred between spouses.

More specifically, it will apply, for a particular taxation year, to individuals who, throughout a period of at least 365 consecutive days beginning in the year or the previous year, of which at least 183 days are in the year, cohabit with their spouse in a dwelling,[15] other than a dwelling in a residence for elderly persons,[16] of which they or their spouse is the owner, lessee or sublessee alone or with another person, provided the spouse is 70 or over at the end of the year, or on the date of death if the spouse died in the year, and has a severe and prolonged impairment in mental or physical functions rendering the spouse unable to live alone, as attested by a physician.[17]

However, an individual may not, for a particular year, receive the refundable tax credit for informal caregivers of persons of full age with respect to his or her spouse if another person claims the tax credit for the year with respect to the individual or the individual's spouse.

1.3 Replacement of the refundable tax credit for the acquisition or leasing of a new green vehicle by a purchase or leasing rebate program

To encourage the acquisition or long-term leasing of new vehicles that comply with strict greenhouse gas emission standards, it was announced in the March 19, 2009 Budget Speech that an eligible person who acquires or leases on a long-term basis a recognized green vehicle,[18] after December 31, 2008, and before January 1, 2016, would be entitled to a refundable tax credit of up to $8 000 for his taxation year that includes such time.[19]

Briefly, the value of this tax credit depends on the environmental performance of the vehicle and the time when better performing generations of green vehicles should appear on the Québec market.

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[15] See note 11.

[16] According to the meaning ascribed to the term for the purposes of the application of the refundable tax credit for home support for elderly persons.

[17] See note 13.

[18] Essentially, to be recognized as a green vehicle, the vehicle must be new, have four wheels, intended for use on public roads and be either a vehicle powered totally or partially by gasoline or diesel or, if it is a hybrid vehicle, partially by one of these fuels and by electricity, or a vehicle using no fuel as a source of energy, including a low-speed vehicle.

[19] MINISTÈRE DES FINANCES DU QUÉBEC, *2009-2010 Budget - Additional Information on the Budgetary Measures*, March 19, 2009, p. A.69.

The following table shows the amount of the tax credit that may be allowed for each recognized green vehicle acquired during calendar years 2011.

TABLE J.1

Refundable tax credit for the acquisition of a new green vehicle in 2011
(dollars)

Vehicle fuel consumption	Tax credit
Gasoline consumption from 3 to 5.27 l/100 km or equivalent[1]	1 500
Gasoline consumption from 0.01 to 2.99 l/100 km or equivalent[2]	3 000
Low-speed vehicle (LSV) using no fuel	4 000
Vehicle, other than an LSV, using no fuel	8 000

1 From 2.58 to 4.54 l/100 km of diesel.
2 From 0.01 to 2.57 l/100 km of diesel.

Where a recognized green vehicle is leased on a long-term basis[20] under a lease entered into in 2011, the amount of the tax credit is established by applying a rate, ranging from 25% to 85% depending on the length of the continuous lease period, to the amount that would otherwise have been allowed had the vehicle been acquired in 2011.

To enable persons wishing to acquire or lease an electric vehicle to receive government assistance more quickly, this budget stipulates the implementation, as of January 1, 2012, of an electric vehicle purchase or lease rebate program that will replace the existing refundable tax credit.[21] It follows that only vehicles acquired or leased under a long-term leasing contract before January 1, 2012 may give rise to the refundable tax credit for the acquisition or leasing of a new green vehicle.

The purchase or lease rebate program will apply to vehicles whose engine type includes a form of electrification and will focus chiefly on rechargeable hybrid electric vehicles and exclusively electric vehicles able to travel on a public road where the authorized speed limit is more than 50 kilometres per hour.

For this type of vehicle, it is expected that the rebate will be calculated on the basis of battery capacity in kilowatt-hours. For 2012, the rebate will range between $5 000 and $8 000. For example, based on the capacity of the battery in the Chevrolet Volt, which is expected to become available on the Québec market during 2011, the purchase rebate will be $7 769.

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[20] For the purposes of the tax credit, a long-term lease means a lease for a continuous period of at least 12 months.

[21] See Section E, sub-section 10.1.2.

Accordingly, so that certain consumers do not postpone their decision to acquire or lease a rechargeable hybrid electric vehicle until 2012, the tax legislation will be amended to stipulate that, for vehicles with a weighted fuel consumption rating from 0.01 to 2.99 litres of gasoline per 100 kilometres acquired or leased under a long-term lease contract after the day of the Budget Speech and before January 1, 2012, the amount of the tax credit granted for the acquisition of such vehicle will rise from $3 000 to $7 769.

1.4 Introduction of a refundable tax credit for the production of cellulosic ethanol and changes to the existing refundable tax credit for the production of ethanol in Québec

In the April 21, 2005 Budget Speech, a refundable tax credit was introduced for ethanol production carried out in Québec to foster diversification of energy supplies in Québec.[22]

To encourage more ethanol production in Québec, a new refundable tax credit applicable to cellulosic ethanol production will be introduced.

More specifically, this tax credit, which may reach $0.15 per litre of eligible cellulosic ethanol produced, will be granted, for a period ending March 31, 2018, for the eligible production of cellulosic ethanol by an eligible corporation.

Moreover, changes will be made to the existing refundable tax credit for the production of ethanol in Québec to simplify its administration. More specifically, adjustments will be made to the definitions of the expressions "eligible production of ethanol" and "eligible ethanol", while the annual production ceiling will be replaced with a monthly ceiling and the cumulative ceiling will be eliminated. Other changes will be made to this refundable tax credit because of the introduction of the new refundable tax credit for the production of cellulosic ethanol.

1.4.1 Introduction of a refundable tax credit for the production of cellulosic ethanol in Québec

To encourage more ethanol production in Québec, an eligible corporation that produces eligible cellulosic ethanol in Québec may receive, for its eligible production of cellulosic ethanol, a refundable tax credit of up to $0.15 per litre.

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[22] MINISTÈRE DES FINANCES DU QUÉBEC, 2005-2006 *Budget – Additional Information on the Budgetary Measures*, April 21, 2005, Section 1, p. 91.

❑ Eligible corporation

For the purposes of the refundable tax credit, the expression "eligible corporation" means any corporation, other than an excluded corporation, that, during a taxation year, has an establishment in Québec where it carries on an eligible cellulosic ethanol production business.

To that end, an "excluded corporation", for a taxation year, means:

— a tax-exempt corporation;

— a Crown corporation or a wholly-controlled subsidiary of such a corporation.

❑ Eligible cellulosic ethanol

For the purposes of the refundable tax credit, the expression "eligible cellulosic ethanol" means ethanol, i.e. ethyl alcohol with the chemical formula C_2H_5OH, produced in Québec from eligible renewable materials exclusively by means of a thermochemical process and sold either as a product to be mixed directly with gasoline or as an input in the reformulation of gasoline or the production of ethyl tertiary-butyl ether (ETBE).[23]

For greater clarity, where the ethanol production process includes a fermentation procedure, the ethanol that is produced may not be considered eligible cellulosic ethanol.

Such cellulosic ethanol must be produced after the day of the Budget Speech and before April 1, 2018.

For the purposes of the refundable tax credit, the ethanol will be considered ethanol produced from eligible renewable materials where it is produced mainly from the following inputs (raw materials):

— residual materials produced by industries, commercial establishments and institutions (ICI), or from construction, renovation and demolition (CRD) activities;

— treated wood residues;

— forestry and agricultural residue;

— urban household garbage;

— a combination of the above items.

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[23] ETBE is an oxygenate made by combining ethanol and isobutylene and sold as a product to be added to gasoline.

For the purposes of this rule, the amount of inputs can be measured on the basis of the weight or volume of all of the raw materials used to produce ethanol during a given month.

For greater clarity, the number of litres of ethanol that can be produced from an input will not be considered for the purposes of this rule.

Moreover, ethanol produced, even in part, from kernel corn will be deemed not to be ethanol produced from eligible renewable materials, even if it is produced mainly from the inputs mentioned above.

Lastly, should it considered desirable to use another renewable material for eligible cellulosic ethanol production, a change could then be made[24] to the list of inputs mentioned above.

☐ Eligible cellulosic ethanol production

For the purposes of the refundable tax credit, the expression "eligible cellulosic ethanol production" means, regarding an eligible corporation, for a given period, the number of litres of eligible cellulosic ethanol, on the one had, that the eligible corporation produces in Québec, and, on the other, that, during the period, is sold in Québec to a holder of an agent-collector license issued under the *Fuel Tax Act*[25] and that is then intended for Québec.

In this regard, the eligible cellulosic ethanol will be considered intended for Québec where the transport manifest[26] issued to the acquirer when it takes possession of its load of eligible cellulosic ethanol,[27] indicates that its destination is in Québec or, in the case where the eligible corporation assumes delivery of the eligible cellulosic ethanol to the acquirer, where such delivery and taking of possession by the acquirer take place in Québec.

The eligible cellulosic ethanol produced by an eligible corporation will not be considered eligible cellulosic ethanol production until the date the acquirer takes possession of it.

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[24] As part of a budget speech or an information bulletin issued by the Ministère des Finances.

[25] For greater clarity, an agent-collector is any person, other than a retailer, who sells fuel, delivers or has it delivered in Québec.

[26] This transport manifest is generally used to facilitate control of a number of obligations of the acquirer.

[27] It should be noted that before transporting a load of ethanol, it must be "denatured", generally by adding a portion of gasoline, which makes the mixture, consisting of 99% ethanol and 1% gasoline, unfit for human consumption. As a consequence of this addition, in this example, only 99% of the quantity of denatured ethanol shown on the transport manifest could be considered as eligible cellulosic ethanol production.

❑ Determination of the tax credit

The tax credit an eligible corporation may claim, for a taxation year, will be calculated by multiplying, for each month[28] of the taxation year, its eligible cellulosic ethanol production for such month, expressed in litres, by an amount varying with the monthly average market price of ethanol. The maximum rate of the tax credit, for a given month, is $0.15 per litre.

For a given month, the monthly average market price of ethanol will consist of the arithmetic average of the daily closing values on the Chicago Board of Trade of an American gallon of ethanol, expressed in American dollars.

The monthly amount of the tax credit will be calculated according to the following formula:

$$A \times (\$0.15 - (\$0.05\,B + \$0.15\,C))$$

Where:

— the letter A represents the eligible cellulosic ethanol production of the eligible corporation for the given month, expressed in litres;

— the letter B represents, where the monthly average market price of ethanol is greater than US$2.00, the difference between this monthly average price, up to US$2.20, and US$2.00;

— the letter C represents, where the monthly average market price of ethanol is greater than US$2.20, the difference between this monthly average price, up to US$3.1333, and US$2.20.

Accordingly, taking certain reduction factors into account, no tax credit will be granted, for a given month, where the monthly average market price of ethanol is equal to or greater than US$3.1333.

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[28] In the case where the taxation year of an eligible corporation begins on a day of a calendar month that is not the first of such month, a month means the period beginning the day of such first of the month and ending before the same day of the following month.

☐ Monthly ethanol production ceiling

The refundable tax credit may be granted, for a given taxation year, on eligible cellulosic ethanol production of an eligible corporation up to a maximum of 40 million litres.[29] More specifically, a monthly cellulosic ethanol production ceiling will be applied. This monthly eligible cellulosic ethanol production ceiling, for a given month, will correspond to a daily production of 109 589 litres, multiplied by the number of days in such given month. Accordingly, for a month of 28 days, the monthly eligible cellulosic ethanol production ceiling will be 3 068 492 litres, while the ceiling will be 3 397 259 litres for a 31-day month.

Moreover, associated corporations must share, for each month, the monthly eligible cellulosic ethanol production ceiling, and file an agreement to that end with Revenu Québec, according to the usual rules.

☐ Rules applicable to grouped production units

It is possible that independent production units are grouped within the same plant in order to, among other things, share common elements relating to energy supply or certain installations needed to store and load ethanol after production. It is also possible that ethanol of other provenance (other source of supply) may be stocked with the ethanol produced by an eligible corporation.

In such situations, the following rules will apply:

- for a corporation to receive the refundable tax credit for the production of cellulosic ethanol regarding a production unit, the installations must allow accurate measurement of the real production of each unit before it is mixed with the production of another production unit (or another source of supply), whether the ethanol is eligible cellulosic ethanol or not;
- the criterion according to which the ethanol must be produced mainly from eligible renewable materials will be applied separately to each production unit;

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[29] More specifically, in the case of a taxation year of 365 days, the maximum eligible cellulosic ethanol production of an eligible corporation is 39 999 985 litres, while it is 40 109 574 litres in the case of a taxation year of 366 days.

- where production from a number of production units (or sources of supply) is mixed together in a reservoir, after previously having been measured, the following rules will apply:
  - each load of ethanol made during a given month from the reservoir will be deemed to be composed of ethanol from each of the production units (or sources of supply) whose production was mixed in such reservoir, in a proportion calculated, for each production unit (or source of supply) according to the following formula:

    $(A + B) / (B + C + D)$

    Where:

    - the letter A represents the portion of the stock of mixed ethanol of a reservoir attributable to the production unit at the beginning of the given month;[30]
    - the letter B represents the ethanol production of the production unit added to such reservoir during the given month;
    - the letter C represents the ethanol production of any other production unit added to such reservoir during the given month;
    - the letter D represents the total stock of mixed ethanol of the reservoir containing the ethanol of the production unit at the beginning of the given month.

☐ Exclusion of the investment tax credit on manufacturing and processing equipment

Briefly, an eligible corporation that makes an eligible investment, during a taxation year, can receive an investment tax credit for such year in relation to such investment.

The assets used in the course of operating a cellulosic ethanol production plant will not be eligible for the investment tax credit on manufacturing and processing equipment.

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[30] In this regard, the portion of the stock of mixed ethanol of a reservoir attributable to a production unit at the beginning of a given month will be determined by applying the proportion attributable to such production unit calculated according to the formula mentioned above for the preceding month, to the total stock of mixed ethanol of such reservoir in which the ethanol of such production unit is held at the beginning of the given month.

❑ Other application details

The amount of the refundable tax credit for the production of cellulosic ethanol, for an eligible corporation, may be applied against its instalment payments, if any, to be made in relation to income tax, according to the usual rules.

To receive this tax credit, for a taxation year, an eligible corporation must enclose with its tax return, for such year, a form prescribed by Revenu Québec as well as a report specifying, for each month of its taxation year, the eligible cellulosic ethanol production, as well as the monthly average market price of ethanol used for the purposes of calculating the tax credit.

❑ Application dates and eligibility period

This tax credit will be granted, for a period starting at the earliest the day following the day of the Budget Speech and ending at the latest on March 31, 2018, for the eligible cellulosic ethanol production by an eligible corporation.

The eligible cellulosic ethanol produced by an eligible corporation will not be considered eligible cellulosic ethanol production until the date the acquirer takes possession of it.

Moreover, the eligible cellulosic ethanol must be produced after the day of the Budget Speech and before April 1, 2018.

Accordingly, for greater clarity, the ethanol produced by a corporation no later than the day of the Budget Speech may not be included in the eligible cellulosic ethanol production of such corporation even if such ethanol is sold and taken possession of by the acquirer after the day of the Budget Speech and before April 1, 2018.

Similarly, the eligible cellulosic ethanol sold by a corporation and taken possession of by the acquirer after March 31, 2018 cannot be included in the eligible cellulosic ethanol production of such corporation even if such eligible cellulosic ethanol is produced by a corporation after the day of the Budget Speech and before April 1, 2018.

Where ethanol produced in Québec after the day of the Budget Speech from eligible renewable materials (subsequent production) is stored with ethanol produced by the corporation or acquired by it before that day (the earlier stock), the first in-first out rule will be applied to such earlier stock for the purposes of the refundable tax credit for the production of cellulosic ethanol.

In this context, such earlier stock will not have to be included for the purposes of the rules mentioned above in the case of grouped production units.

Concerning the exclusion of the investment tax credit on manufacturing and processing equipment, the tax credit will apply regarding assets acquired as of the day of the Budget Speech.

1.4.2 Changes to the existing refundable tax credit for the production of ethanol in Québec

As mentioned earlier, a refundable tax credit was introduced in the April 21, 2005 Budget Speech, for ethanol production carried out in Québec to foster diversification of energy supplies in Québec.[31]

Briefly, this refundable tax credit is granted to an eligible corporation, for a maximum of ten years starting no earlier than April 1, 2006 and ending no later than March 31, 2018, regarding the production of ethanol in Québec by the eligible corporation.

More specifically, any corporation, other than an excluded corporation, that, during a taxation year, has an establishment in Québec where it carries on an ethanol production business can, under certain conditions, receive the refundable tax credit for the production of ethanol in Québec for such year.

The refundable tax credit is calculated on the basis in particular of the eligible production of ethanol by the eligible corporation for a given month. The maximum amount of the tax credit, for a given month, is $0.185 per litre. However, taking certain reduction factors into account, no tax credit is granted, for a given month, where the average monthly price of a barrel of crude oil is equal to or greater than US$65. Annual and cumulative ceilings on ethanol production in addition to a monetary ceiling are stipulated for this tax credit.

In view of the introduction of a refundable tax credit for the production of cellulosic ethanol and the possibility that the ethanol production of independent production units may be mixed together in a reservoir before an acquirer takes possession of the ethanol, changes will be made to the application details of the existing refundable tax credit for the production of ethanol in Québec to simplify its administration, among other things. Accordingly, changes will be made to the definitions of the expressions "eligible production of ethanol" and "eligible ethanol". The annual production ceiling will be replaced with a monthly ceiling, while and the cumulative ceiling will be eliminated. Other changes will be made to this refundable tax credit to adapt it to the introduction of the new refundable tax credit for the production of cellulosic ethanol as well as that of a support program that applies specifically to eligible ethanol production.

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[31] See note 22.

☐ Changes to the definition of the expression "eligible production of ethanol"

Briefly, under the existing rules, the eligible production of ethanol of an eligible corporation, for a given period that is a taxation year or a portion thereof, means the number of litres of eligible ethanol, on the one had, that the eligible corporation produces in Québec during such period, and, on the other, that, no later than the filing deadline applicable to it for the taxation year, is sold in Québec to a holder of an agent-collector license issued under the *Fuel Tax Act*[32] or that, on such date, can reasonably be expected to be sold in Québec after such date to such license holder.

The eligible ethanol must be produced from renewable materials to be sold as a product to be mixed directly with gasoline, or for use as an input in the reformulation of gasoline or in making of ETBE.

The definition of the expression "eligible production of ethanol" will be changed to mean, regarding an eligible corporation, for a given period, the number of litres of eligible ethanol that the eligible corporation, on the one had, produced in Québec, and, on the other, sold in Québec, during the period, to a holder of an agent-collector license issued under the *Fuel Tax Act* and is then intended for Québec.

In this regard, the eligible ethanol will be considered intended for Québec where the transport manifest[33] issued to the acquirer when it takes possession of its load of eligible ethanol[34] indicates that its destination is in Québec or, in the case where the eligible corporation assumes delivery of the eligible ethanol to the acquirer, where such delivery and taking of possession by the acquirer take place in Québec.

The ethanol produced by an eligible corporation cannot be considered eligible production of ethanol until the date the acquirer takes possession of it.

Accordingly, because of these changes regarding the time when the ethanol produced by an eligible corporation may be considered eligible production of ethanol, the special tax relating to the refundable tax credit for the production of ethanol in Québec will be changed. More specifically, the rules relating to the sale of all or part of the eligible production of holder of an agent-collector license[35] will be eliminated.

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[32] See note 25.

[33] See note 26.

[34] See note 27.

[35] Subparagraph c of the first paragraph of section 1129.45.3.37 of the Taxation Act.

☐ Replacement of the annual ethanol production ceiling with a monthly ceiling and elimination of the cumulative ceiling

Under existing rules, the refundable tax credit for the production of ethanol in Québec can be granted, for a given taxation year, on maximum eligible ethanol production of 126 million litres. Accordingly, when the eligible ethanol production of an eligible corporation reaches, on a cumulative basis, the annual ceiling of 126 million litres, the tax credit calculated for the month during which this ceiling is reached applies only to the difference between this ceiling of 126 million litres and the cumulative annual production of ethanol at the end of the preceding month.

This annual ceiling on ethanol production will be replaced with a monthly ceiling. More specifically, the monthly ceiling on ethanol production, for a given month, will correspond to a daily production of 345 205 litres, multiplied by the number of days in such given month. Accordingly, for a month of 28 days, the monthly ceiling on ethanol production will be 9 665 740 litres, while the ceiling will be 10 701 355 litres for a 31-day month.[36]

Associated corporations will have to share, for each month, the monthly ethanol production ceiling and file an agreement to that end with Revenu Québec, according to the usual rules.

Moreover, the existing rules stipulate that no tax credit is granted where the total cumulative ethanol production of an eligible corporation exceeds 1.2 billion litres. This rule relating to the cumulative ceiling of 1.2 billion litres will be eliminated.

☐ Rules applicable in the case of grouped production units

As mentioned above, it is possible that independent production units are grouped within the same plant in order to, among other things, share common elements relating to energy supply or certain installations needed to store and load ethanol after production. It is also possible that ethanol from another source of supply may be stocked with the ethanol produced by an eligible corporation.

In such situations, the rules applicable in the case of grouped production units for the purposes of the refundable tax credit for the production of cellulosic ethanol will also apply, allowing for the necessary adaptations, to the refundable tax credit for the production of ethanol in Québec.

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[36] Accordingly, in the case of a taxation year of 365 days, the maximum eligible ethanol production of an eligible corporation is 125 999 825 litres, while it is 126 345 030 litres in the case of a taxation year of 366 days.

❑ Exclusion of cellulosic ethanol

For the purposes of the refundable tax credit for the production of ethanol in Québec, the eligible ethanol must be produced from renewable materials to be sold as a product to be mixed directly with gasoline, or for use as an input in the reformulation of gasoline or in making of ETBE.

Because of the introduction of a refundable tax credit for the production of cellulosic ethanol, a change will be made to the definition of the expression "eligible ethanol" for the purposes of the refundable tax credit for the production of ethanol in Québec so that it specifically excludes eligible cellulosic ethanol.

❑ Exclusion of the investment tax credit on manufacturing and processing equipment

Briefly, an eligible corporation that makes an eligible investment, during a taxation year, can receive an investment tax credit for such year in relation to such investment.

The assets used in the course of operating an ethanol production plant will not be eligible for the investment tax credit on manufacturing and processing equipment.

❑ Change to the definition of government assistance

Under existing rules, the amount of the refundable tax credit for the production of ethanol in Québec an eligible corporation may receive must be reduced by the amount of any government assistance, any non-government assistance and any benefit or advantage.

However, for the purposes of this tax credit, government assistance or non-government assistance does not include:

— an amount deemed to have been paid to the Minister of Revenue for a taxation year by virtue of this refundable tax credit;

— the amount of assistance attributable to a specific grain price stabilization program negotiated with La Financière agricole du Québec;

— the amount of assistance attributable to a manpower training program;

— the amount of federal government assistance directly attributable to the ethanol industry segment, in particular regarding the market expansion, process improvement, energy efficiency and change in raw materials.

A new form of assistance will be added to this list, namely that stemming from the first-generation ethanol fuel production efficiency improvement support program.[37] Accordingly, for the purposes of this refundable tax credit, government or non-government assistance will not include, in addition to the items mentioned above, the amount of assistance attributable to first-generation ethanol fuel production efficiency improvement support program.

☐ Application dates

Subject to the following, these changes will apply to ethanol produced by a corporation after the day of the Budget Speech.

The ethanol produced by an eligible corporation cannot be considered eligible ethanol production until the date the acquirer takes possession of it.

For greater clarity, the ethanol produced by an eligible corporation no later than the day of the Budget Speech cannot be included in the eligible ethanol production of such corporation for the period beginning after the day of the Budget Speech even if such eligible ethanol is sold and taken possession of by the acquirer after the day of the Budget Speech and before April 1, 2018.

In addition, because of the change mentioned above concerning the time when the ethanol produced by an eligible corporation may be considered eligible ethanol production, the ethanol sold by a corporation and taken possession of by the acquirer after March 31, 2018 cannot be included in the eligible ethanol production of such corporation even if such eligible ethanol is produced by a corporation after the day of the Budget Speech and before April 1, 2018.

Where ethanol produced in Québec after the day of the Budget Speech from renewable materials potentially eligible for the refundable tax credit for the production of ethanol in Québec (subsequent production) is stored with ethanol produced by the corporation or acquired by it before that day (the earlier stock), the first in-first out rule will be applied to such earlier stock for the purposes of the refundable tax credit for the production of ethanol in Québec.

In this context, such earlier stock will not have to be included for the purposes of the rules mentioned above in the case of grouped production units.

Concerning the exclusion of the investment tax credit on manufacturing and processing equipment, the tax credit will apply for assets acquired as of the day of the Budget Speech.

Lastly, concerning the replacement of the annual ethanol production ceiling with a monthly ceiling and the withdrawal of the cumulative ceiling, these changes will apply to a taxation year ending after the day of the Budget Speech.

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[37] See Section E, sub-section 10.2.2.

1.5 Changes to the refundable tax credit for book publishing

The refundable tax credit for book publishing was implemented in 2000 to further support book publishing activities and thus enable Québec publishers to develop foreign markets for Québec works, carry out large-scale publishing projects and develop the translation market.[38]

For the purposes of obtaining the refundable tax credit for book publishing, an eligible corporation must first obtain a favourable advance ruling from the Société de développement des entreprises culturelles (SODEC) or a certificate for each book or group of books for which it intends to claim the tax credit, this first step being followed by claiming the tax credit from Revenu Québec. The advance ruling or certificate, as the case may be, certifies that the book or group of books in question is recognized as an eligible book or eligible group of books of the corporation.

Among other conditions, for the purposes of the eligibility of a book or group of books, at least 75% of the amount corresponding to all of the printing costs and preparation costs of the corporation in respect of the book of group of books, as the case may be, apart from non-repayable advances paid to Québec authors, must be paid either to individuals who resided in Québec at the end of the calendar year preceding the one during which the publishing work started, or to corporations that had an establishment in Québec during such preceding calendar year.

The refundable tax credit for book publishing is equal to the total of the following amounts:

- 35% of the eligible labour expenditure attributable to preparation costs regarding an eligible book or eligible group of books;
- 27% of the eligible labour expenditure attributable to printing costs regarding an eligible book or eligible group of books.

However, eligible labour expenditures are limited to 50% of the preparation costs directly attributable to the preparation of the book or group of books and to 33 ⅓% of the printing costs directly attributable to the printing of the book or group of books, as the case may be. The tax assistance granted can therefore reach 17.5% of such preparation costs and 9% of such printing costs.

Moreover, regarding an eligible book or eligible group of books, the tax credit cannot exceed $437 500 for the eligible book or for each of the books that is part of the eligible group of books.

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[38] MINISTÈRE DES FINANCES DU QUÉBEC, *2000-2001 Budget - Additional Information on the Budgetary Measures*, March 14, 2000, Section 1, p. 56.

Currently, the refundable tax credit for book publishing can only be obtained for the printed version of a book or group of books. The e-book is becoming increasingly important in the publishing field and it is now appropriate that the tax assistance take this new reality into account and be extended to the digital version of an eligible book or book that is part of an eligible group of books.

Consequently, the sector parameters of the refundable tax credit for book publishing will be changed so that the digital version of an eligible book or a book that is part of an eligible group of books of a corporation be eligible for the tax credit. The tax legislation will also be amended so that the base of the refundable tax credit for book publishing is extended to include the labour expenditure attributable to the digital version publishing expenses of an eligible book or a book that is part of an eligible group of books.

☐ Changes to sector parameters

Currently, to be eligible for the refundable tax credit for book publishing, the printed version of a book or a group of books must satisfy certain criteria included among the sector parameters administered by SODEC. Moreover, the digital version of an eligible book or a book that is part of an eligible group of books of a corporation is not eligible for this tax credit. The sector parameters will accordingly be changed to recognize the eligibility of the digital version of such books.[39]

■ Eligible digital version

A digital version of the printed version of a book will constitute an eligible digital version of the printed version of the book if:

- the printed version of the book constitutes an eligible book or a book that is part of an eligible group of books, as the case may be;
- the corporation holds the digital version publishing rights of the eligible book or book that is part of the eligible group of books;
- at least 75% of the amount corresponding to all of the digital version publishing costs of the corporation for the eligible book or, as the case may be, for the books that are part of the same eligible group of books is paid to individuals who resided in Québec at the end of the given calendar year preceding the one during which the digital version publishing work began or to corporations who had an establishment in Québec during such given calendar year (75% rule).[40]

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[39] These changes will be incorporated in the framework legislation consolidating the sector parameters of certain fiscal measures and whose introduction was announced in *Information Bulletin 2007-10*, of December 20, 2007, on page 16.

[40] Accordingly, if the digital version of more than one book that is part of the same eligible group of books is published, the 75% rule will be applied on the basis of the total costs associated with such publishing paid for such books.

The corporation must provide SODEC with proof that it holds the digital version publishing rights of the eligible book or book that is part of the eligible group of books.

Lastly, where many given corporations succeed each other in the course of publishing a book, the 75% rule will be deemed to be satisfied where it appears that it would be if all of the individuals and corporations that supplied services in relation to the publishing of the digital version of the book to such given corporations are taken into consideration.

A certification application for the digital version of a book or book that is part of a group of books must be filed with SODEC at the same time as the application for a favourable advance ruling or a certificate, where no application for an advance ruling has been filed, relating to the printed version of the book or group of books. As the case may be, the ineligibility of the digital version of a book will not affect the eligibility otherwise certified by SODEC of the printed version of the same book. However, in that case, the eligible corporation may receive tax assistance only regarding the printed version of the book.

Favourable advance ruling or certificate

If need be, SODEC must indicate on the favourable advance ruling or the certificate it issues for an eligible book or eligible group of books that the digital version of the book or of a book that is part of the group of books, as the case may be, constitutes an eligible digital version of the eligible book or of the book that is part of the eligible group of books of the corporation.

Amendments to the tax legislation

The tax legislation will also be amended to broaden the refundable tax credit for book publishing to include the labour expenditure attributable to the digital version publishing costs of an eligible book or a book that is part of an eligible group of books.

Broadening of the labour expenditure attributable to preparation costs

Where the digital version of an eligible book or a book that is part of an eligible group of books of a corporation constitutes an eligible digital version of the eligible book or the book that is part of an eligible group of books, the labour expenditure attributable to preparation costs of the corporation relating to the book or the group of books for a taxation year will also include the labour expenditure attributable to the digital version publishing costs of the corporation relating to the book for the year.

Accordingly, in this case, the labour expenditure attributable to preparation costs of a corporation relating to an eligible book or an eligible group of books will mean, generally speaking, in addition to the amounts currently stipulated, the amounts of the same nature incurred and paid by the corporation for the delivery of services supplied in Québec for eligible digital version publishing work regarding the eligible book or book that is part of the eligible group of books.

The eligible digital version publishing work regarding an eligible book or book that is part of an eligible group of books will mean the work done to carry out the various stages of the digitization of the book and will include, among others, the work relating to conversion, the production of metadata, indexing, previewing, stocking, destocking and quality control, as well as the filing of the book in a digital warehouse.

■ Cap on the eligible labour expenditure attributable to preparation costs

Where a digital version of an eligible book or a book that is part of an eligible group of books constitutes an eligible digital version of the eligible book or the book that is part of an eligible group of books, the 50% cap that enters into the calculation of the eligible labour expenditure attributable to preparation costs will apply to all the preparation costs directly attributable to the preparation of the book and the digital version publishing costs directly attributable to the publishing of the digital version of the book.

The digital version publishing costs directly attributable to the publishing of the digital version of an eligible book or a book that is part of an eligible group of books incurred by an eligible corporation before the end of a taxation year will consist of the following amounts:

- the digital version publishing costs of the book, other than the publishing fees and administration costs, incurred by the corporation to carry out the various stages publishing the digital version including conversion, production of metadata, indexing, previewing, stocking, destocking, quality control as well as the filing of the book in a digital warehouse;
- the portion of the cost of acquisition of a given asset, belonging to the corporation and used by it in the course of publishing the digital version of the book that corresponds to the portion of the accounting depreciation of such given asset, for the year, determined in accordance with generally accepted accounting principles, relating to the use that the corporation makes of such given asset in such year, in the course of digitizing the book.[41]

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[41] This definition will also apply to the digital version publishing costs covered by the 75% rule described on page J.26.

☐ Application date

These changes will apply to a book, or a book that is part of a group of books, for which - book or group of books - an initial application for an advance ruling, or an initial application for a certificate where no application for an advance ruling is filed, is filed with SODEC after the day of the Budget Speech.

1.6 Change to the refundable tax credit for sound recording production

The refundable tax credit for sound recording production was implemented in 1999 to support Québec's recording industry and foster its consolidation by encouraging the development of Québec songs.[42] In 2006, changes were made to this tax credit intended for cultural businesses to help them deal with the new realities of the recording industry. Since then, digital audiovisual recordings and clips are eligible for the tax credit.[43]

For the purposes of obtaining the refundable tax credit for sound recording production, an eligible corporation must first obtain a favourable advance ruling from the Société de développement des entreprises culturelles (SODEC) or a certificate for each sound recording, each digital audiovisual recording and each clip for which it intends to claim the tax credit, this first step being followed by claiming the tax credit from Revenu Québec. The advance ruling or certificate, as the case may be, certifies that the sound recording, digital audiovisual recording or clip in question is recognized as an eligible sound recording, eligible digital audiovisual recording or eligible clip.

A sound recording is an eligible sound recording of a corporation if, among other things, it satisfies the following two criteria:

- other than for the recording of a comedy show, it must include, on a physical medium, at least 60% of musical content determined on the basis of the timing;
- it must be produced by the corporation for the purposes of commercial development for retail marketing.

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[42] MINISTÈRE DES FINANCES DU QUÉBEC, *1999-2000 Budget - Additional Information on the Budgetary Measures*, March 9, 1999, Section 1, p. 57.

[43] MINISTÈRE DES FINANCES DU QUÉBEC, *2006-2007 Budget - Additional Information on the Budgetary Measures*, March 23, 2006, Section 1, p. 72.

The tax credit is equal to 35% of the amount of eligible labour expenditure relating to a sound recording, a digital audiovisual recording or a clip, which is limited, however, to 50% of the production expenses directly attributable to the production of the sound recording, digital audiovisual recording or clip, as the case may be. Accordingly, the tax assistance granted can reach 17.5% of such production expenses.

Advances in technology and growth in digital media continue to transform the music market. More specifically, methods of transmission and, hence, of consumption of recorded music have changed substantially in recent years. Accordingly, while the traditional form of sales in stores of sound recordings on physical media continue to account for most sales of recorded music, producers are turning increasingly towards distribution of music over the internet in the form of downloadable digital files.

Consequently, the sector parameters of the refundable tax credit for sound recording production, which is administered by SODEC, will be changed so that a sound recording sold in a format other than on physical medium, for instance a downloadable file, can henceforth be eligible for the purposes of the tax credit.[44]

☐ Change relating to the sector parameters applicable to an eligible sound recording

According to the existing sector parameters of the refundable tax credit for sound recording production, a sound recording of a corporation is eligible, among other things, if it is produced on a physical medium and is produced by the corporation for commercial development with a view to retail marketing.

■ Eligible sound recording

To adapt the tax assistance to the reality of the music market and make sound recordings eligible regardless of their format, the requirement relating to the presence of a physical medium will be eliminated. For greater clarity, the notion of retail business, whose interpretation comes under the authority of SODEC, will also include retail business inherent in any sound recording henceforth eligible.

■ Application date

This change will apply to a sound recording for which an initial application for an advance ruling, or an application for a certificate where no application for an advance ruling is filed, is filed with SODEC after the day of the Budget Speech.

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[44] This change will be incorporated in the framework legislation consolidating the sector parameters of certain fiscal measures and whose introduction was announced in *Information Bulletin 2007-10*, of December 20, 2007, on page 16.

1.7 Measures to encourage investments of tax-advantaged funds

Since the creation of the Fonds de solidarité FTQ, Fondaction[45] and Capital régional et coopératif Desjardins, the government has supported the growth of these investment corporations by allowing them to collect capital enjoying a tax benefit consisting of a non-refundable tax credit to individuals who become shareholders of them.

Since these investment funds' financing is made easier by granting a tax benefit, investment requirements were included in their statutes of incorporation to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

Each of the statutes of incorporation of these investment corporations stipulates that, during each fiscal year, the corporation's eligible investments must represent, on average, at least 60% of the corporation's average net assets for the preceding fiscal year.[46]

Should these corporations fail to satisfy this investment requirement, hereafter called "60% standard", a sanction is imposed on them.

Over the years, various changes have been made to the calculation details of the 60% standard as well as to the list of eligible investments to better adapt this standard to the capital needs of Québec companies and enable tax-advantaged funds to play a greater role in the economy.

Currently, for the purposes of the 60% standard, eligible investments are investments that include neither security nor hypothec and consist, among others, of investments in eligible Québec companies, investments in major projects with a structuring effect on Québec's economy, strategic investments made in accordance with an investment policy approved by the Minister of Finance as well as investments made in certain local venture capital funds created and managed in Québec.

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[45] The Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi.

[46] In the case of Capital régional et coopératif Desjardins, this standard contains a regional component. More specifically, the standard stipulates that, for each fiscal year, the eligible investments of Capital régional et coopératif Desjardins must represent, on average, at least 60% of the corporation's average net assets for the preceding fiscal year, and a portion representing at least 35% of this percentage must be invested in eligible cooperatives or in entities located in Québec's resource regions (Abitibi-Témiscamingue, Bas-Saint-Laurent, Côte-Nord, Gaspésie–Îles-de-la-Madeleine, Mauricie, Nord-du-Québec and Saguenay–Lac-Saint-Jean).

To adapt the 60% standard even better to the capital needs of businesses, various amendments will be made to the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, the *Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* and the *Act constituting Capital régional et coopératif Desjardins*.

In addition, changes will be made to the capitalization of Capital régional et coopératif Desjardins to ensure its capacity to invest in Québec companies.

☐ Recognition of investments made for business succession

Business succession is considered a major challenge for Québec and many leading players, including tax-advantaged funds, are working with the government to foster a favourable environment for the transfer of businesses.

■ Relève Québec fund

To facilitate business transfers to new generations of entrepreneurs, the government is announcing the implementation of the Relève Québec fund, with capital of $50 million.[47] The capital of the fund, which will take the form of a limited partnership, will be provided in the following proportions: 40% by the Québec government and 60% by the Fonds de solidarité FTQ, Fondaction and Capital régional et coopératif Desjardins.

To recognize the contribution of tax-advantaged funds to this initiative in support of business succession, their statutes of incorporation will be amended to stipulate that investments[48] respectively made in the Relève Québec fund, LP - as well as the investments that are agreed and for which funds have been committed but not yet disbursed[49] at the end of a given fiscal year - will be considered eligible investments for the purposes of the 60% standard.

In addition, for the purposes of calculating the 60% standard applicable to it, the amount of investments made by a tax-advantaged fund in the Relève Québec fund, LP, including agreed investments, may be increased by 50%.

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[47] See Section E, sub-section 5.3.1.

[48] That include no security or hypothec.

[49] For greater clarity, these investments will not be included in the calculation of the 12% authorized limit on net assets that is generally applicable to non-disbursed investments.

Investments in ceded businesses

To further support business succession by fostering the implementation of less costly financing structures, the statutes of incorporation of tax-advantaged funds will be amended to stipulate that eligible investments for the purposes of the 60% standard will include investments incorporating a security made by a tax-advantaged fund in a business[50] – whose assets are less than $100 million or whose net equity is less than $50 million –, provided such investments are part of a financing package for the business succession in which the Relève Québec fund participates.

For greater clarity, agreed investments for which funds are committed by a tax-advantaged fund but not yet disbursed at the end of a given fiscal year will also be considered eligible investments, subject to the authorized limit of 12% of net assets at the end of the preceding fiscal year that generally applies to non-disbursed investments.

❑ Greater recognition of investments in local venture capital funds

Currently, investments are considered eligible investments for the purposes of the 60% standard if they are investments – that include neither security nor hypothec – made by a tax-advantaged fund, during a period beginning April 22, 2005 and ending March 23, 2011, in a local venture capital fund created and managed in Québec or in a local fund recognized by the Minister of Finance, provided such investments, on the one hand, are made with the expectation that the local fund invest at least 150% of the amounts received from the three tax-advantaged funds in Québec companies whose assets are less than $100 million or whose net equity is less than $50 million and, on the other, are not already included for the purposes of the 60% standard.[51]

This category of investments, hereafter called "local fund category", was created to structure a private venture capital industry to overcome the insufficiency of capital for businesses in the seed or start-up phase, or businesses operating in the technology sector.

Since the development of entrepreneurship, mainly through the creation of small and medium-size businesses, is a catalyst for Québec's economic development, the investment period applicable to the local fund category will be extended to May 31, 2016. In addition, changes will be made regarding the amount of investments that can be included in this category.

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[50] A partnership or a legal person pursuing economic goals.

[51] In this regard, agreed investments for which funds have been committed by a tax-advantaged fund but not yet disbursed at the end of a given fiscal year will also be considered eligible investments.

Increase in the amount of investments

In view of the higher risk associated with the investments covered by the local fund category, the amount of investments included in this category is currently increased by 50% for the purposes of calculating the 60% standard for a fiscal year of a tax-advantaged fund ending before January 1, 2012.

Given that the eligibility period of such investments will be extended, the amount of investments included in this category by a tax-advantaged fund may, up to 5% of its net assets at the end of the preceding fiscal year, increase by 50% for the purposes of calculating the 60% standard for a fiscal year of the fund ending before January 1, 2017.

Elimination of the 5% limit on net assets

According to the existing rule, for a fiscal year of a tax-advantaged fund, all of the investments covered by the local fund category – before any 50% increase if the fiscal year of the fund ended before January 1, 2012 – that can be included for the purposes of the 60% standard cannot exceed 5% of the net assets of the fund at the end of the preceding fiscal year.

To enable tax-advantaged funds to support the government's efforts to structure a private venture capital industry focusing on emerging technology businesses, the statutes of incorporation of tax-advantaged funds will be amended to stipulate that, for a fiscal year of tax-advantaged fund ending after the day of the Budget Speech, the 5% limit on net assets at the end of the preceding fiscal year will be eliminated.

Clarification

The investments made by Capital régional et coopératif Desjardins in a local fund will be deemed made in an entity located in a resource region of Québec for the purposes of the regional component of its 60% standard[52] if, in the view of the Minister of Finance, it is reasonable to believe that the local fund will have an impact on the economic activity of the resource regions or on the cooperative community.

☐ Increase in the limit applicable to the strategic investment category

For the purposes of the 60% standard, the eligible investments of a tax-advantaged fund can include some investments in medium-size businesses whose activities have a structuring effect on Québec's economy.

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[52] See note 46.

These investments, included in the strategic investment category, are those made after March 11, 2003 by a tax-advantaged fund in accordance with an investment policy adopted by its board of directors and approved by the Minister of Finance, in a business whose assets are less than $500 million or whose net equity does not exceed $200 million.

These investments are eligible for the purposes of the 60% standard for a given fiscal year of a tax-advantaged fund, up to 5% of its net assets at the end of the preceding fiscal year.

To enable the 60% standard to further take into account the capital needs that medium-size businesses, in particular, may have to expand or carry out a major productivity-enhancing project, the limit on assets applicable to the strategic investment category will rise, for a fiscal year of a tax-advantaged fund ending after the day of the Budget Speech, from 5% to 7.5% of its net assets at the end of the preceding fiscal year.

☐ Redefinition of the category grouping major investments made by the Fonds de solidarité FTQ

The investments eligible for the 60% standard imposed on the Fonds de solidarité FTQ include investments[53] made in a partnership or a in legal person that consist of an initial capital outlay of at least $25 million provided, on the one hand, that the strategic value of such capital outlay has been recognized by the Minister of Finance after December 22, 2004 and, on the other, that such investments are not otherwise eligible investments.

However, where, at a given time during a fiscal year, the Fonds de solidarité FTQ holds many investments that could be included in this category, hereafter called "major investment category", its statute of incorporation stipulates that just one of such investments can be considered as an eligible investment, at such given time, for the purposes of the 60% standard, up to 5% of its net assets at the end of the preceding fiscal year.

To better adapt the major investment category to the extent of the sphere in which the Fonds de solidarité FTQ is active, such category will be redefined to include investments[54] with a strategic value for Québec's economy that are made by the Fund in a single entity – partnership or legal person – and consisting of an initial capital outlay of at least $25 million or an additional capital outlay, provided the Minister of Finance has recognized, after December 22, 2004, the strategic value of the initial capital outlay and, as the case may be, of the additional capital outlay for the purposes of its inclusion in such category.

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[53] For greater clarity, such investments must include no security or hypothec.

[54] See preceding note.

For greater clarity, investments that have been agreed and for which funds have been committed but not yet disbursed at the end of a given fiscal year will also be considered eligible investments, subject to the authorized limit of 12% of net assets at the end of the preceding fiscal year that generally applies to non-disbursed investments.

☐ Increase in the capital of Capital régional et coopératif Desjardins

According to the *Act constituting Capital régional et coopératif Desjardins*, this corporation can raise a maximum amount of $150 million per capital-raising period,[55] as long as it has not reached, for the first time, at the end of a capital-raising period, at least $1 billion on account of paid-up capital regarding issued and outstanding shares and fractions of shares.

On February 28, 2011, the capital of Capital régional et coopératif Desjardins crossed, for the first time, the capital threshold of $1 billion, amounting to almost $1.019 billion.

Once past the threshold, the maximum amount that Capital régional et coopératif Desjardins can collect for a capital-raising period corresponds to the reduction, up to $150 million, of its paid-up capital attributable to redemptions or purchases by mutual agreement made during the preceding capital-raising period.

Accordingly, to enable Capital régional et coopératif Desjardins to maintain its place in Québec's venture capital industry, especially among small and medium-size businesses in the regions, this corporation will continue to be entitled to raise a maximum of $150 million per capital-raising period as long as it has not reached, for the first time, at the end of the capital-raising period, at least $1.25 billion on account of paid-up capital regarding issued and outstanding shares and fractions of shares.

For greater clarity, for each capital-raising period following the one at the end of which at least $1.25 billion of capital is reached for the first time, Capital régional et coopératif Desjardins will continue to be authorized to raise the lesser of $150 million or the amount corresponding to the reduction in paid-up capital attributable to all of the shares and fractions of shares that were redeemed or purchased by mutual agreement by the corporation during the preceding capital-raising period.

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[55] I.e. each period beginning March 1 of a year and ending the last day of February of the following year.

2. MEASURES RELATING TO CONSUMPTION TAXES

2.1 Adjustment to the tobacco tax stemming from the rise of the Québec sales tax

On June 23, 1998, the Québec sales tax (QST) ceased to apply to tobacco products. However, to keep the tax burden on these products constant, the tobacco tax was then adjusted accordingly.

Thus, to reflect the fact that the rate of the QST will be 9.5% as of January 1, 2012, the rates of the tobacco tax will be changed as follows as of that date:

- the rate of the specific tax of 10.6 cents per cigarette will be 10.9 cents per cigarette;
- the rate of the specific tax of 10.6 cents per gram of loose tobacco or leaf tobacco will be 10.9 cents per gram;
- the rate of the specific tax of 16.31 cents per gram of any tobacco other than cigarettes, loose tobacco, leaf tobacco and cigars will be 16.77 cents per gram; the minimum rate applicable to a tobacco stick will change from 10.6 cents to 10.9 cents per stick.

The rate of the ad valorem tax of 80% of the taxable price of cigars will remain unchanged.

Taking of inventory

Persons not under an agreement with Revenu Québec who sell tobacco products in respect of which the specific tax on tobacco has been collected in advance or should have been will have to take an inventory of all these products they have in stock at midnight December 31, 2011 and remit, before January 28, 2012, an amount equal to the difference between the tax applicable at the new rates and the tax applicable at the rates in effect prior to midnight, December 31, 2011. This also applies for collection officers under agreement with Revenu Québec who sell tobacco products in respect of which the specific tax on tobacco has been paid in advance or has not yet been paid.

Persons required to take an inventory must use for this purpose the form provided by Revenu Québec and return it before January 28, 2012. For greater clarity, the products acquired by a person before midnight, December 31, 2011 but not yet delivered to him will be included in his stock.

2.2 Implementation of a new mechanism for managing the tax exemption of Indians regarding fuel tax

Under the federal *Indian Act*,[56] the personal property of an Indian or a band situated on a reserve is exempt from taxation. To take this legal framework into account, the Québec fuel tax system includes a mechanism for managing this tax exemption that consists of a reimbursement of the tax paid by an Indian or a band on their retail purchases of fuel on a reserve.

So that Indians and bands can, regarding such purchases, benefit from the tax exemption allowed by the *Indian Act* sooner, the mechanism for managing this exemption stipulated by the fuel tax system will be changed to replace the existing reimbursement measure with a purchase exemption measure applicable as of July 1, 2011.[57]

☐ Application details

■ Indians and bands

Under the new mechanism, Indians and bands will be able to purchase fuel at the retail level on a reserve without paying tax by showing the retail dealer a fuel tax exemption management program registration card issued by Revenu Québec and by signing the exempt fuel sales register that the retail dealer will be required to keep. Indians will also have to show the retail dealer their Certificate of Indian Status issued by the Department of Indian and Northern Affairs Canada.

To obtain the fuel tax exemption management program registration card, Indians and bands will have to apply for it from Revenu Québec using the prescribed form containing the prescribed information, with which they will have to enclose the prescribed supporting documents.

Moreover, an Indian or band that does not have or cannot produce this card when purchasing fuel at the retail level on a reserve will be able, in such circumstances, to continue using the existing reimbursement measure to recover the fuel tax paid.

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[56] R.S.C. c. I-5.

[57] Like the existing reimbursement measure, the new purchase exemption measure will apply to tribal councils and band-empowered entities.

■ Retail dealers

For the purposes of the new purchase exemption measure, a retail dealer located on a reserve will have to check the status of a purchaser at the time of each retail sale of fuel. To that end, he will have to ensure the validity of the purchaser's fuel tax exemption management program registration card as well as, if applicable, the purchaser's identity by means of his Certificate of Indian Status.

In addition, the retail dealer will have to keep a register, in the prescribed form and containing the prescribed information, of all exempt retail sales of fuel made to Indians and to bands and have them sign it at the time of each such transaction.

Furthermore, he will have to satisfy certain prescribed rules regarding posting of prices for fuel sold at the retail level in his establishment in order to adequately inform Indians and bands that they receive their tax exemption at the time of purchase of such products.

Moreover, since an advance collection system applies to the fuel tax such that retail dealers must pay an amount equal to such tax to their suppliers in advance, such retail dealers will be able to claim from Revenu Québec the reimbursement of the amount thus paid to their suppliers for the fuel sold exempt from tax to Indians and bands.

However, to limit the impact of such tax-exempt sales on the cash flow of retail dealers located on a reserve, they will be able to receive, under certain conditions, a partial reduction of the amount equal to the fuel tax they must pay to their suppliers. To receive this reduction, whose amount based on the fuel consumption of Indians and bands will be determined by Revenu Québec, retail dealers will have to submit to the latter an application using the prescribed form.

☐ Consequential amendments

Consequential amendments will be made to the tax legislation to enable adequate application of the measures introduced under the new mechanism for managing the tax exemption of Indians regarding fuel tax.

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